

S. HRG. 109-364

DEPARTMENT OF DEFENSE BUSINESS TRANS-
FORMATION AND FINANCIAL MANAGEMENT
ACCOUNTABILITY

HEARING
BEFORE THE
SUBCOMMITTEE ON READINESS AND MANAGEMENT
SUPPORT
OF THE
COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE
ONE HUNDRED NINTH CONGRESS
FIRST SESSION

NOVEMBER 9, 2005

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**DEPARTMENT OF DEFENSE BUSINESS TRANS-
FORMATION AND FINANCIAL MANAGEMENT
ACCOUNTABILITY**

WEDNESDAY, NOVEMBER 9, 2005

U.S. SENATE,
SUBCOMMITTEE ON READINESS
AND MANAGEMENT SUPPORT,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:00 p.m., in room SR-232A, Russell Senate Office Building, Senator John Ensign (chairman of the subcommittee) presiding.

Committee members present: Senators Ensign, Thune, Akaka, and Bayh.

Majority staff members present: William C. Greenwalt, professional staff member; Ambrose R. Hock, professional staff member; Gregory T. Kiley, professional staff member; Thomas L. MacKenzie, professional staff member; and Derek J. Maurer, professional staff member.

Staff assistants present: Micah H. Harris and Benjamin L. Rubin.

Committee members' assistants present: D'Arcy Grisier and Alexis Bayer, assistants to Senator Ensign; Darcie Tokioka, assistant to Senator Akaka; and William K. Sutey, assistant to Senator Bill Nelson.

OPENING STATEMENT OF SENATOR JOHN ENSIGN, CHAIRMAN

Senator ENSIGN. Good afternoon.

The Readiness and Management Support Subcommittee meets today to receive testimony on the Department of Defense's (DOD) business transformation and financial management efforts. We are honored today to have with us the Under Secretary of Defense for Acquisition, Ken Krieg; the Comptroller of the Department of Defense, Tina Jonas; and the Director of Information Technology for the Government Accountability Office (GAO), Randy Hite. I welcome all of you.

This is the fourth hearing in the past 2 years on the business systems and financial management of the Department of Defense that Senator Akaka and I have held as chairman and ranking member of this subcommittee. At the first hearing on financial management, we committed to holding frequent hearings to gauge the progress made. Sadly, from that first hearing to today, only Senator Akaka and I are the same key participants. Though, to be

fair, the Comptroller General of the United States, David Walker, did wish to be here, but is traveling overseas. He has assured us that he will make the next hearing on this subject.

I understand that people move on in government service and that changeover can be a positive thing, but the continued lack of accountability, the multiple plans for change over the years that are never implemented, and the hundreds of millions of dollars wasted are a disservice to the American taxpayer. They deserve better.

Senator Akaka and I remain committed to continuing these hearings, and I hope I can get the same commitment from the witnesses here today.

As I said, not all change is bad. Just prior to the last hearing in April, a new team took over primary responsibility for the Department's business transformation and financial management reform. The effort is now being led by Deputy Under Secretary of Defense Paul Brinkley and Deputy Under Secretary Tom Modly under the direction of Secretary Krieg and Secretary Jonas.

At first, my staff and I were skeptical that this was just one more attempt at rearranging the deck chairs on the Titanic. However, in carefully watching their progress over the past 8 months, I am encouraged by their efforts.

On September 30, 2005, a new road map for business systems transformation and improved financial management accountability was delivered to Congress. The Enterprise Transition Plan contains realistic time lines and matches plans to resources. This plan was delivered on time, and it contains more detail and meaningful metrics than previous efforts.

Last month a new organization was created under the Under Secretary of Defense for Acquisition, run jointly by Mr. Brinkley and Mr. Modly, called the Business Transformation Agency. This agency is expected to provide consistency in DOD's business transformation efforts, minimize redundancies in its business systems, and reduce overhead for the Department. Rather than creating a new bureaucracy, the agency is expected to shift resources from existing business processes and system modernization into a unified, focused organization. Mr. Brinkley and Mr. Modly are to be commended for their hard work to date, and I look forward to continuing the partnership with the Department and the GAO and hearing more about the progress from our witnesses.

While progress has been made, much still needs to be done. One area that continues to concern me is jointly managed programs—programs shared among the individual Services. These programs pose significant management challenges. Many of these programs are to be directly managed by the Business Transformation Agency. While centrally managing these programs seems to be the right direction, I hope the witnesses will go into greater detail as to how we can be assured that such joint programs are adequately managed and funded.

Thank you again for taking the time to prepare written testimony and to appear before the subcommittee today, as previously agreed. We will hear opening statements from Under Secretary of Defense for Acquisition, Secretary Krieg; and Comptroller of the

Department Defense, Secretary Jonas; and the Director of Information Technology for the GAO, Mr. Hite.

To our witnesses, your prepared statements will be made part of the record. Therefore, I urge you to keep your oral statements fairly short in order to allow sufficient time for questions and really a discussion.

But first, I would like to turn to my ranking member, somebody I have grown in admiration for in the years that we have spent together on this committee, and I really enjoy our working relationship.

Senator Akaka.

STATEMENT OF SENATOR DANIEL K. AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. The feeling is mutual, and I look forward to continuing to work with you on this issue, as well as others, having to do with readiness. I have enjoyed working with you, and we have been working well together.

I thank you for holding these hearings on the shortcomings of the financial management systems. This is a subject of vital importance to the Department and to this committee because without timely, accurate financial information, our senior military and civilian leaders will continue to be severely handicapped in making day-to-day management decisions and ensuring that taxpayer dollars are well spent.

Over the first 4 years of this administration, senior DOD officials promised us that they were making a serious effort to address this problem. Unfortunately, as we learned at last year's hearing, despite spending some \$200 million on the project to transform the Department's business operations, the Department failed to take even the most basic steps to rectify this problem. I remain deeply distressed that the Department appears to have wasted the better part of 4 years on a dead-end path that will yield no positive results for the Department or for the taxpayers. But, I look forward with the chairman in trying to find solutions and to bring that about.

I would like to note that I am also the ranking member on the Oversight of Government Management Subcommittee where the subcommittee's chairman, Senator Voinovich, and I have been holding investigative hearings on DOD programs and on the GAO's high risk list, including business modernization.

Since the time of last year's hearing, Secretary Gordon England has brought new focus to defense management issues in his new role as Deputy Secretary of Defense and has brought in a team to work on fixing the Department's business systems. This team, under the leadership of Paul Brinkley and Tom Modly, has been a breath of fresh air. Instead of spending millions of dollars on consultants as did their predecessors, Mr. Brinkley and Mr. Modly have started to break down the problem into manageable steps and work their way through them.

The Business Enterprise Architecture and Transition Plan that we received from them on September 30 is just the first step. The GAO indicates that the Architecture and Transition Plan is still far from complete. It only partially addresses the key requirements

spelled out in our legislation. Months of work still lie ahead for the Department to develop a more mature Architecture and Transition Plan that will provide the necessary detail to address its financial problems, and once that Architecture and Transition Plan is in place, it will take years to implement it.

Nonetheless, this document is a step in the right direction. At least now we appear to have a sound foundation upon which we can start building.

I believe that the most important step Congress can take now is to institutionalize the process that finally seems to be going in the right direction. Too many times we have seen a new administration come in and scrap the work of its predecessor, condemning DOD to start from scratch. I am sure I speak for the chairman. We all like Secretary England and believe he will do his best to improve the management of the Department. We are pleased by what we have seen from Mr. Brinkley and Mr. Modly. But these are individuals. They are not institutions. To be successful, we need to develop structures that will remain in place from one administration to the next. That is why I believe we have done the right thing in codifying the Defense Systems Business Management Committee.

In addition, I believe we should do what we can to institutionalize the new Business Transformation Agency established by the Department last month and support the Comptroller General's recommendation to establish a new Deputy Secretary for Management at the Department of Defense level. The chairman has played a huge part in bringing this about.

In this effort, the Senate yesterday agreed to an amendment offered by Senator Byrd, myself, Senator Ensign, the chairman of this subcommittee, and Senator Lautenberg calling for two federally funded research and development centers to conduct independent studies of the feasibility and advisability of establishing a Deputy Secretary of Defense for Management, whose responsibility it would be to serve as the chief management officer of the Department of Defense.

There are some who are uncertain as to the necessity of this position, and those studies will examine the impact that creating such a position would have on the management of the Department. I am very pleased that the Senate has agreed to further review this matter.

I look forward to the testimony of today's witnesses and will continue to work with the chairman. Thank you very much, Mr. Chairman.

Senator ENSIGN. Thank you, Senator Akaka.

We would be pleased to receive your testimony now, Secretary Krieg.

STATEMENT OF HON. KENNETH J. KRIEG, UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY AND LOGISTICS

Mr. KRIEG. Thank you, Senator. Chairman Ensign, Senator Akaka, Senator Bayh, thank you for the opportunity to speak to you today about the progress with business transformation and financial management.

I am very proud of the progress we have made since my predecessor, Mike Wynne, spoke to you all 6 months ago. On September 30, 2005, as you noted, Mr. Chairman, we published the Department of Defense Enterprise Transition Plan and delivered it to both the House and the Senate. This plan represents the first time the Department has delivered a plan in layman's terms that allows the public to see exactly how we are investing their tax dollars to modernize our business information operations. This plan shows how we are supporting the warfighter while improving financial accountability to the taxpayer.

Publishing this plan is the first of five key actions we have taken to restructure the Department's business transformation efforts over the last 6 months. This plan tells you what we are doing. It lays out costs, milestones, and goals for transforming the way we do business.

On September 30, we also published our Business Architecture, which includes data standards and business rules for the Department. The architecture shows how we are going to begin carrying out the plan. In other words, the two provide at least an initial blueprint for our systems and business processes to ensure they support the goals identified in the plan.

The third action in restructuring is the establishment of four business systems investment review boards, each aligned to a functional business mission. The investment review board reviews all business systems investments in excess of \$1 million to make sure they are in line with our plan and the architecture. Investment review is where we test our investments to ensure that they are moving us toward the goals outlined in our plan.

Our fourth action establishes accountability for successfully executing our investment programs. As you noted, with the recent creation of the Business Transformation Agency, we have established an accountable organization for DOD-level business systems investment. These investments in business improvements will impact the entire Department as opposed to the specific Service or agency-wide improvements, which are also part of the Enterprise Transition Plan. The agency creates a Department-wide accountable organization that collaborates with Services and agencies that remain responsible for investments impacting their organizations.

I would also note that I guess we have announced that Major General Butch Pair will join that group as a defense business systems acquisition executive, in my vernacular the sort of joint Peace Enforcement Operation (PEO), joint program executive officer, who is responsible for looking at those executive-wide, Department-wide systems and development to make sure that they are being run well by their program managers, that they meet the needs of the various parts of the enterprise that are part of it. It is part of your question of how we will do these joint enterprise programs better. Butch comes to us from Transportation Command (TRANSCOM), having been out as a combatant commander recently, so he will have that voice of the customer as he comes in to do his job.

Finally, we come to our fifth action, enforcement. As required by Congress in the NDAA for Fiscal Year 2005—and also a good idea—we established the Defense Business Systems Management Committee. Since the last report to this committee, we have fully

exercised the committee under the leadership of Deputy Secretary of Defense Gordon England. Once a month, we meet at the senior management level, and so part of what is happening is the senior management is getting engaged in this activity. It is not just an action of staff. This committee, chaired by the Deputy Secretary and vice chair by me in my role, was created to ensure that we were part of the process and that we had accountability in doing this work.

These five critical actions have been completed since our last meeting with the subcommittee and represent, I believe, a vast improvement over prior efforts at managing business systems modernization and transformation.

I appreciate the continued attention and tenacity of the chairman and ranking of this committee that you have shown to this issue. I know that you have been frustrated by work that we have done. However, I believe that by allowing us the time and resources to focus and correctly position this transformation effort, we can be positioned for success in the future. I believe your tenacity has paid off.

But we are far from done, as you noted, and in chapter 4 of the Enterprise Transition Plan, we begin to lay out the next steps of activity. Much of it revolves around the challenge of implementing programs successfully. Some of the challenge revolves around getting the various integrated activities to work together. Finally, some of the work revolves around thinking through the broad-scale metrics that will link the various efforts together to create customer success.

Before I close my remarks, I would like to thank my colleagues at the GAO for their participation both in this effort and in the broader work that we are doing in terms of the high-risk management efforts. As Senator Akaka knows, against the high-risk issues that are a part of the Department's purview, we have developed a template of work between the Department, between GAO, and between the Office of Management and Budget (OMB) to try to put together an action plan which we are responsible for implementing, that attempts to go and implement the kinds of changes necessary. But the GAO has been a very supportive partner in helping us think through that process.

Lastly I would like to note the hard work of both Paul Brinkley and Tom Modly over the last 6 or 7 months. Often working against great adversity, they have done great work to put us in a position for success, and I thank them for that work.

We look forward to continuing to work on this project, to work with the GAO and with this committee, as we move forward. Thanks for your time, and I will be happy to take any questions you might have.

[The prepared statement of Mr. Krieg follows:]

PREPARED STATEMENT BY HON. KENNETH J. KRIEG

Chairman Ensign, Senator Akaka, and members of the committee: Thank you for the opportunity to appear before you today to discuss the Department's progress in the areas of business transformation and financial management. My primary focus in Acquisition, Technology and Logistics (AT&L) is on the customer—the warfighter of both today and tomorrow. Customers expect our acquisition community to deliver the capabilities they need to defend America and its interests, not only today, but

into the future. In doing so, we must also provide timely information and analysis to assist Secretary Rumsfeld in his efforts to balance resources against requirements. As stewards of the American taxpayer, those of us in the acquisition community have a responsibility to wisely invest and manage the hard-earned tax dollars of our citizens to enhance and expand our national defense capability. To ensure that the American people stay informed, we must make sure that Congress is well informed of our efforts.

As part of our Quadrennial Defense Review (QDR), the Secretary directed General Duncan McNabb and me to lead a review of our acquisition and other business processes to ensure they are capable of meeting customer needs. To improve our ability to acquire capability efficiently, I have identified a number of key principles I believe we must follow:

- First, we must understand and define success in terms of the customers' success. In other words, we must be successful in the customers eyes, not simply our own.
- Second, we must align authority, responsibility, and accountability—all conceived in a joint context with associated standards. This will facilitate delegation of authority and decentralization of execution, while ensuring accountability consistent with identified standards.
- Third, we must base our decisions on authoritative data captured in a comprehensive management information approach linked not only to acquisition, but also to requirements, and the Planning, Programming, Budgeting, and Execution system. This will help us to achieve insight and clarity, and honestly balance risks at the portfolio level to get the best value for the taxpayer.
- We must develop policy that allows even greater agility so we can acquire, mature, transition, and field advanced technology in ever shorter cycle times.

Finally, we must accept the fact that our acquisition environment is in constant change and our acquisition system must also change consistent with that dynamic. Change is not the exception; it is a constant that we must manage. History has proven to us that those that respond to changing conditions survive and succeed and those that don't will inevitably fail. I am very much aware of that fundamental lesson and will do all I can to develop an acquisition system capable of responding to the rapidly changing world we live in. We must ensure that the Department's business operations must be more flexible and adaptable than ever in order to effectively support our warfighters with the information and resources they need, when they need them.

SENIOR LEADERSHIP OVERSIGHT

In February of this year, the Defense Business Systems Management Committee (DBSMC) was established to oversee Department-wide business transformation efforts. The DBSMC is chaired and actively led by the acting Deputy Secretary of Defense and includes senior leaders, both civilian and military, from across the Department. I sit on this committee as the vice-chairman, and I can say to you that the Department's senior leadership is fully engaged in making real, measurable progress in transforming our business operations. This committee meets to set the business information and process priorities for the Department; it discusses and evaluates how to organize and integrate efforts to produce results across functional and hierarchical structures; and to review and approve investment certifications. While much work remains to be done, the senior leadership represented on the committee is committed to ensuring that transformation of our business operations remains a top priority.

In addition, I have appointed the Deputy Under Secretary of Defense for Business Transformation who reports directly to me as the Under Secretary of Defense (AT&L) and the Comptroller has appointed the Deputy Under Secretary of Defense for Financial Management—who reports directly to her to serve in a joint capacity, overseeing defense business transformation efforts on a daily basis. These key steps, as well as the acting Deputy Secretary's active involvement, ensure executive leadership and oversight of our transformation efforts at the most senior levels of the Department.

SIGNIFICANT PROGRESS TO DATE

This year the Department has made significant progress in the evolution of its business transformation efforts. First, with the establishment of the Defense Business Systems Management Committee (DBSMC), we have continual oversight of business systems modernization efforts. Second, investment control is now exercised

by a series of Investment Review Boards, led by the appropriate Under Secretaries of Defense and guided by a consistent set of policies and procedures. Finally, I'm pleased to say, that on September 30, 2005 the DBSMC delivered the Departments' Business Enterprise Architecture v3.0, to guide and constrain business capability development and investment, and Enterprise Transition Plan, which outlines the Department's priorities and initiatives supporting transformation.

To guide transformation going forward, the DBSMC established the Defense Business Transformation Agency (BTA) to support the DBSMC and Principal Staff Assistants in their efforts to define Department-wide business transformation goals and objectives. This organization includes a Defense Business Systems Acquisition Executive (DBSAE) to manage the execution of identified programs delivering Department-wide capabilities.

INVESTMENT CONTROL

Responsibility for driving business transformation decisions within the five core business missions of the Department's Business Mission Area is assigned to the appropriate Under Secretary of Defense as Principal Staff Assistants (PSAs) to the Secretary. The PSAs have established Investment Review Boards (IRBs) that form the decisionmaking bodies for the Core Business Missions. Using standard procedures and guidelines, and with representation from the relevant Services, defense agencies, and combatant commands, each IRB assesses modernization investments relative to their impact on end-to-end business process improvements supporting warfighter needs and makes recommendations to the DBSMC for systems certification approvals.

There are currently four IRBs, including two that I directly oversee as Under Secretary of Defense (AT&L). The first combines Weapon Systems Lifecycle Management and Materiel Supply and Services Management Mission Area Leadership in order to ensure that, when we are reviewing business system investments that provide capabilities in areas of acquisition of weapon systems, we consider all the impacts and issues across the lifecycle, and from the factory to the foxhole. The Deputy Under Secretary of Defense for Business Transformation chairs this IRB for me, and it includes senior leadership from my staff, the Joint Staff and the Deputy Commander of United States Transportation Command (USTRANSCOM). The second IRB under my purview is the Real Property and Installations Lifecycle Management IRB. This IRB reviews all business systems that provide business capabilities used to manage the Department's Real Property and Installations. It is chaired for me by my Deputy Under Secretary of Defense for Installations and Environment, and membership includes the Joint Staff, Services, and the DOD CIO. The remaining IRBs are overseen by my peers, Tina Jonas, who chairs the IRB for Financial Management and Dr. David Chu, the Under Secretary of Defense for Personnel and Readiness, who chairs the IRB for Human Resources Management.

On June 3, 2005, the Department issued IRB policy guidance that incorporated the National Defense Authorization Act for Fiscal Year 2005-required governance structure and outlined standard procedures to ensure consistency and compliance. This policy outlines a standard certification process, and provides a standard certification template and certification criteria and reporting.

To date, the IRBs have reviewed more than 180 business systems certification packages received from the Services, Defense Agencies, USTRANSCOM, and the five Business Mission Areas leaders and recommended approval of those certification requests. The investment dollars reviewed to date totals approximately \$3.3 billion.

BUSINESS ENTERPRISE ARCHITECTURE/ENTERPRISE TRANSITION PLAN

With the release of the Business Enterprise Architecture v3.0 (BEA) and the Enterprise Transition Plan (ETP) on September 30, 2005, the Department has a clearly defined blueprint and roadmap to guide its transformation efforts. Within both the BEA and ETP, these efforts are focused and framed at the DOD Enterprise level around six strategic Business Enterprise Priorities (BEPs): Personnel Visibility, Acquisition Visibility, Common Supplier Engagement, Materiel Visibility, Real Property Accountability, and Financial Visibility. These BEPs represent those areas where increased focus will bring the most dramatic and immediate positive impact on the Core Business Missions of the Department of Defense.

Within the overall plan, we have identified these enterprise priorities for such measurable program and business capability deliverables spread over the next several years. They will provide enduring improvements to the Department's business infrastructure, benefiting the warfighter through integration of enterprise business

processes, reducing system redundancies, and continuously improving financial visibility.

ESTABLISHMENT OF THE BUSINESS TRANSFORMATION AGENCY

A key to success of our business transformation efforts going forward will be centralized management and coordination of the corporate level of capabilities determined to be corporate-level, while allowing freedom to manage within the Services and Agencies.

The Acting Deputy Secretary and the Defense Business System Management Committee approved the establishment of a defense agency to lead and coordinate business transformation efforts across the Department of Defense (DOD).

The BTA shifts the existing resources working on business process and system modernization into a unified, focused organization. In doing this, the Department is encouraging further collaboration, and achieving centralized visibility to investments in DOD-wide business modernization efforts. The agency will be responsible for supporting and integrating the work of the OSD principal staff assistants in the areas of business process re-engineering, core business mission activities and Investment Review Board (IRB) matters, as determined by the DBSMC.

Another responsibility of the agency will be the execution of those programs that make up the corporate level of shared services provided to the entire Department. These programs will no longer be managed by disparate executive agents across the Department, but by the Defense Business Systems Acquisition Executive (DBSAE) within the agency

THE NEXT 6 MONTHS

Over the next 6 months, the central focus of the Department's business transformation efforts will be shifting towards execution and delivery. With the establishment of the Business Transformation Agency and institution of the Defense Business Systems Acquisition Executive, we will begin to focus efforts on delivering DOD Enterprise capabilities outlined in the Enterprise Transition Plan (ETP). We will continually monitor progress of programs and initiatives described in the ETP, looking for opportunities to accelerate delivery of specific capabilities that will allow us to affect the transformation of the Department's business operations faster.

Additionally, in order to better gauge the success of our efforts across the Department, we will be initiating a comprehensive metrics program. This will allow the Department to monitor performance of how each of our end-to-end core business missions is improving warfighter support, reducing costs, improving financial stewardship, and enabling better informed decisions. This program is currently in development and will be rolled out with the next update of the Enterprise Transition Plan that we plan to deliver at the end of the second quarter in 2006 .

GAO CONTRIBUTIONS TO BUSINESS TRANSFORMATION

I would like to recognize the contributions made by the GAO in working with us to identify and address many issues related to Business Transformation. The GAO made many recommendations over the past few years regarding architecture, investment control and the governance of the Department's business transformation effort. We have incorporated many of these recommendations into our programs and products and believe the vast majority of their issues are addressed in the Department's new Business Transformation governance and investment review structures and newly issued Business Enterprise Architecture and Enterprise Transition Plan. Additionally, with the establishment of the Business Transformation Agency, the Department has taken an important step towards ensuring continuity and consistency of leadership for DOD Business Transformation. We look forward to a continued, healthy dialog with the GAO.

GAO HIGH RISK AREAS WITHIN DOD

All but one of the Department's High Risk Areas fall under my purview. The Acting Deputy Secretary asked me to track the progress on each High Risk Area goal and milestone and provide him with periodic updates on our progress. I am committed to aggressively addressing the High Risk Areas under our purview. The respective Department leads have collaborated with both the Office of Management and Budget (OMB) and GAO staff to develop plans and identify appropriate milestones and metrics to reduce risks in these areas critical to DOD, and I provided those to OMB this fall. Likewise, I have committed to the acting Deputy Secretary to monitor the milestones and metrics for progress for each area and will begin quarterly review this month.

CONCLUSION

All the progress I've just described demonstrates the level of commitment the Department's senior leadership has toward business transformation. The Department has established clear and specific management responsibility, accountability, and control over overall business transformation-related activities and applicable resources. In addition, we have developed a clear and integrated strategic plan for business transformation with specific goals, measures, and accountability mechanisms to monitor progress, including a well-defined blueprint, our business enterprise architecture. We have put in place a comprehensive and integrated business transformation plan; and are moving to centralize the people with the needed skills, knowledge, experience, responsibility, and authority to implement the plan within the Business Transformation Agency. The Enterprise Transition Plan documents program and capability milestones that will measure our performance and that link institutional, unit, and individual performance goals and expectations to promote accountability for results. These actions collectively demonstrate the Department's commitment to Business Transformation and Business Systems Modernization.

In closing, Mr. Chairman, thank you for the opportunity to testify before the committee about our Business Transformation efforts. I would be happy to answer any questions you and the members of the committee may have.

Senator ENSIGN. Secretary Jonas.

**STATEMENT OF HON. TINA W. JONAS, UNDER SECRETARY OF
DEFENSE (COMPTROLLER)**

Ms. JONAS. Sir, as you have noted, my statement is submitted for the record, so I will try to be brief.

Under Secretary Krieg has articulated a number of things that have already been put in place. I would like to focus a little bit on what we are going to be doing over the next month or so that pertains more clearly to the financial management area and some of the progress we have made there.

We hope next month to be submitting to you what we believe is the third piece of this effort, which is a plan called the Financial Improvement and Audit Readiness (FIAR) plan. Just as Tom and Paul have done great work, sitting behind me is Terri McKay, who is my Deputy Chief Financial Officer. She has been hard at work with a number of other financial professionals to put this plan together.

But primarily, this will be the foundation for improved financial management across the Department, and I have some things in the testimony that you can look at, but let me just outline a few things for you today.

We think that we have measurable progress already achieved by the draft plan that we have together. We are focusing on the various financial statement line items and the 11 material weaknesses that we have, including—for example—military equipment. This has been a very perplexing problem. Valuation of military equipment has been a longstanding issue for the Department and with government accounting, and we have made substantial progress on the valuation there. Fully, 96 percent of our equipment has been valued at this point, and we expect to finish the last 4 percent this year. So that is a significant achievement.

We are working on real property that represents 7 percent of our assets, or \$78 billion. We are also working on our Medicare Eligible Retiree Health Care Fund liabilities and our environmental liabilities. We have made great progress in those areas as well.

For example, we expect to be able to work toward an unqualified opinion on the Medicare Eligible Health Care Fund liabilities that

will lead us to 78 percent of our total liabilities will be unqualified. So that would be a significant achievement, and we are working toward that.

On our environmental liabilities, we have identified and estimated the future cost of cleaning up to be \$17.1 billion, or 27 percent of the Department's total environmental liabilities. We are ready for auditors to verify those numbers.

We are also working with the Marine Corps. We want to use the Marine Corps as a model as to how we might gain a better understanding of the challenges that are going to be involved in preparing for and auditing an entire Service.

So those are some of the things that we are doing. As I said, we hope to have the complete plan to you next month sometime, but this is really a third leg for us in the financial community, a very important piece of what we need to do.

We have also been undertaking some other improvements in the area of day-to-day operations, including pay. We have established the Personnel Pay Council. When I visited this committee last, there were a number of issues related to pay. The two communities that deal with this, the financial community and the personnel and readiness community, have gotten together and we are resolving a number of issues there. We put in additional internal controls, and reviewed a number of accounts, and have prevented a lot of overpayments to date and are correcting issues related to Reserve and mobilization issues.

So we believe we have made a lot of progress, as Ken articulated, over the last 6 months, but we hope to continue making progress. I just wanted to let you know what we expect to be working on in the next 6 months.

[The prepared statement of Ms. Jonas follows:]

PREPARED STATEMENT BY HON. TINA W. JONAS

Mr. Chairman, members of the committee, thank you for the opportunity to update you on the progress the Department has made in business transformation and financial management.

I would also like to thank the members of the committee for your continued strong support of the men and women of America's Armed Forces and their families.

Since our last hearing on April 13, 2005, we have made clear and measurable progress in improving the financial management of the Department of Defense.

A COMPREHENSIVE PLAN IS IN PLACE AND UNDERWAY

Today, a comprehensive plan for business transformation and financial management improvement is in place and underway.

The plan has three major components, two of which were described in some detail by Under Secretary of Defense Krieg. The Business Enterprise Architecture is the blueprint that details how all of the various systems will work together. The Enterprise Transition Plan details how we will develop and implement new financial management systems and standards, when systems will come on line, and how they will talk to one another.

The Financial Improvement and Audit Readiness Plan, which I expect to provide to you at the end of next month, takes the information related to systems and couples it with the financial improvement plans of the military Services to create a single roadmap for financial management improvement and, ultimately, auditability.

Already, we are actively using the Financial Improvement and Audit Readiness Plan to eliminate our financial management material weakness, and to establish higher standards of financial discipline and control.

THE FINANCIAL IMPROVEMENT AND AUDIT READINESS PLAN

The Financial Improvement and Audit Readiness Plan provides a foundation for improved financial management across the entire DOD organization.

Using the Financial Improvement and Audit Readiness Plan we:

- Identify the actions necessary to resolve our financial management weakness;
- Outline the steps necessary to complete those actions; and we will
- Analyze the effects of those actions to ensure they are producing the intended result.

In the near term, the Financial Improvement and Audit Readiness Plan will focus on needed improvements in four key areas:

- Military Equipment (which represents 27 percent of all assets);
- Real Property (which represents 7 percent of all assets);
- Military Retiree Eligible Health Care Fund Liabilities (which represents 29 percent of all liabilities);
- Environmental Liabilities (which represents 4 percent of all liabilities).

Improvements in these areas will produce financial statements that more accurately depict the value of our assets and liabilities. Greater accuracy, in turn, will enable better business decisions and better support of Defense operations.

MEASURABLE PROGRESS IN ALL FOUR FOCUS AREAS

Measurable progress in all four focus areas has already been achieved—most significantly in the area of military assets.

Military Equipment

Military equipment alone represents 27 percent of our assets. To date, we have calculated the value of 96 percent of all military equipment programs—everything from combat vehicles to ships to aircraft. Ninety-six percent, and we expect to complete the remaining 4 percent by the end of 2005.

This is especially significant because the Department has never before had an accurate valuation of its military equipment. Because of this work, we will soon have a baseline value of one of the most important assets on our balance sheet.

Progress in the other focus areas is proceeding with the full cooperation of the Services, whose individual improvement plans are integrated and managed through the Financial Improvement and Audit Readiness Plan.

Real Property

Longstanding issues regarding the best way to value real property assets have now been resolved, and the process of identifying and accurately reporting the value of real property assets is now moving forward. We have defined key milestones for establishing the value of real property assets, as well as the actions that must be taken throughout the Department to achieve an accurate picture of this category of assets.

Military Retiree Eligible Health Care Fund Liabilities

We have now received a qualified audit opinion on Military Retiree Eligible Health Care Fund liabilities for the third year in a row. We established procedures to reconcile outstanding issues, and defined timelines for implementing those procedures throughout the Department. Once those improvements are validated, we will have an unqualified opinion on 78 percent of our total liabilities.

As with military assets, a more accurate picture of liabilities also enables better business decisions, and better support of defense operations.

Environmental Liabilities

Environmental liabilities are the next largest liability after Military Retiree Eligible Health Care Fund liabilities. Environmental liabilities are the costs we expect to pay in the future to clean up or dispose of hazardous materials. Without an accurate estimate of future costs, it is difficult to calculate the amount of funding required to meet our clean up responsibilities.

We continue to make steady progress in both identifying and estimating the future cost of DOD's environmental liabilities. We are now ready for audit verification of \$17.1 billion or 27 percent of the Department's total environmental liabilities, and we continue to make steady progress on estimating the cost of the rest.

Preparing the Way for Audits of the Military Services

In addition to the four focus areas, another near-term objective of the Financial Improvement and Audit Readiness Plan is achieving a sustainable clean audit opin-

ion for the Marine Corps. To achieve this goal we are focusing on all of the balance sheet items in the Marine Corps, using the Corps as a crucible for gaining a better understanding of the challenges involved in preparing for, and auditing, an entire military service.

To help us reach this goal, the Marine Corps has already eliminated more than 600 different business processes, and replaced them with one standardized set of 57 business processes—thereby greatly simplifying day-to-day financial management operations.

These three major components—the Business Enterprise Architecture, the Enterprise Transition Plan, and the Financial Improvement and Audit Readiness plan—put us firmly on the path to business transformation and improved financial management.

IMPROVEMENTS IN DAY-TO-DAY FINANCIAL MANAGEMENT

While we are working on near- and long-term solutions, we are also solving day-to-day problems that cannot wait. For example, military pay.

Personnel and Pay Council

We established the Personnel and Pay Council to help eliminate problems and delays in resolving pay issues.

Composed of senior executives from Offices of Personnel and Readiness and Comptroller at the Deputy Under Secretary level, the Council provides a forum for resolving policy or procedural issues.

Improper Vendor Payments

The Department has also aggressively addressed the problem of improper vendor payments. Application of a DFAS-Internal Review process allowed us to recoup \$119 million in duplicate payments in fiscal year 2003, and \$30 million in fiscal year 2004. Fiscal year 2005 data is currently being compiled.

Military Pay

In addition,

- We trained and certified technicians at all 26 mobilization sites to handle war-time pay issues for mobilized Guard and Reserve members.
- We automated the way records are updated to reduce human error, and instituted a process to review the accuracy of records on a regular basis.
- We trained the finance teams that regularly assist finance personnel in theater. Reserve and Guard Finance units are now fully trained before they deploy.
- We also regularly sent teams to military hospitals to ensure wounded soldiers do not face hardships related to pay or government debt.
- We monitor wounded soldiers to ensure they receive the right pay and entitlements, and
- We have suspended the automated collection of debts of wounded soldiers until a case-by-case review can be conducted by their Service.

As a result of the Army's improvements, \$2.8 million in entitlement overpayments were prevented, and over 1,700 pay accounts were corrected prior to the mobilization or demobilization of Guard and Reserve members to ensure that errors in personnel processing did not adversely impact actual pay.

Steady Progress

The results of these, and many other dedicated efforts to improve DOD financial management practices, have borne fruit over the past 6 months and, cumulatively, over the past 4 to 5 years. Much of this progress is the result of a more disciplined approach to good business practices.

Over the past 6 months, I believe we have made solid progress in advancing our business transformation goals. As we continue down this road, I have no doubt that more improvement will follow. We look forward to reporting our progress in the coming months.

Mr. Chairman, I thank you for the opportunity to discuss our progress in financial management, and on behalf of the Department of Defense, I thank the committee for its support.

Senator ENSIGN. Mr. Hite.

STATEMENT OF RANDOLPH C. HITE, DIRECTOR OF INFORMATION TECHNOLOGY, ARCHITECTURE AND SYSTEM ISSUES, GOVERNMENT ACCOUNTABILITY OFFICE

Mr. HITE. Thank you, Mr. Chairman. It is a pleasure to be here today to discuss DOD's efforts to comply with the National Defense Authorization Act for Fiscal Year 2005 and other matters relating to business systems modernization and overall business transformation.

Before I summarize my statement, I would like to pass along Comptroller General Walker's personal regrets for not being able to be here today. He very much wanted to. He had a commitment outside the country that he could not change.

But let me start by saying what the Comptroller General has stated many times, that DOD maintains unparalleled military capabilities. However, the Department has a long way to go before its business operations are on par with its warfighting operations.

Almost 15 years ago, we first designated certain key DOD business areas as high-risk, and since then, we have added other areas to this list, to the point where today the Department is either fully or partially responsible for 14 out of the 25 high-risk areas we have across the Federal Government.

The need to overhaul the Department's business operations and systems has long been recognized, and prior administrations have tried in vain to do so. In 2001, Secretary Rumsfeld launched the latest attempt, stating that successful improvements in this area could save the Department 5 percent of its annual budget, and for fiscal year 2006, that would be about \$21 billion. At that time, the Secretary established the Business Management Modernization Program (BMMP), and since then we have issued a series of reports, testified many times on this program and weaknesses associated with it, and we have made a number of recommendations. Our most recent reports, which we issued around the time of this last hearing, were quite critical of the program at that time, observing that after investing about 4 years and \$318 million on BMMP, the Department had very little show for it.

So where is the DOD today with respect to business systems modernization and its more broad-based business transformation efforts? Has the Department made progress? What remains to be done?

As requested, my statement will address these questions by focusing on three issues: first, whether the Department has satisfied the business systems modernization management requirements that are in the National Defense Authorization Act; second, whether the Department's newly established Business Transformation Agency (BTA) can help in modernizing the Department's business systems and operations; and third, whether the Department's efforts, relative to the act's requirements and this new agency, fill two overall business transformation needs that we have identified, those being the need for an integrated, strategic business transformation plan and the need for a chief management official.

With respect to the first issue, let me preface my remarks by saying that my observations are based on our ongoing work. Nevertheless, having said that, I would submit that DOD has made more progress since the fiscal year 2005 act's passage than they had

made in the prior 4 years combined. Six months ago, I would have described where the Department stood on this front as largely an empty glass, but today the glass could be described as half full.

To illustrate, we reported that the version of the Business Enterprise Architecture (BEA) that existed 6 months ago was poorly developed and had little, if any, utility. We reported at that time that the Department did not even have a transition plan for implementing its target architectural environment. In contrast, the latest version of the BEA and the accompanying transition plan, while not yet sufficiently complete on several fronts, such as with respect to the BEA's integration and alignment with the military service and defense agency architectures, is nevertheless a good start and a reasonable foundation upon which to build.

Similarly, 6 months ago, a corporate portfolio-based investment decision-making process was not in place, and today one has largely been established, although how effective this approach will ultimately be will depend on several important factors, such as the degree to which the military services and the defense agencies adopt this approach and the extent to which it is actually implemented on each and every business system investment.

With respect to the second issue concerning the new BTA, let me first say that the name is a misnomer. The agency's immediate focus is on business systems modernization and not overall business transformation. In this regard, I believe that the BTA offers potential benefits if it is, among other things, properly organized, resourced, and empowered. While doing so for any new agency is a challenge, making it happen for the BTA by November 21, 2005, which is the date that DOD has committed to, is a challenge that will take more than the next 11 days to pull off.

Other challenges to realizing this potential include making sure that it has the authority commensurate with its responsibilities relative to system investments that are controlled by military services and defense agencies and making sure that the agency's relationship with key system modernization players, such as the DOD chief information officer and the Defense Information Systems Agency, are clearly defined.

With respect to the third issue concerning the Department's overall business transformation efforts, I would first say that the Department's leadership has clearly shown commitment to addressing the business transformation challenges it faces, and it has taken various steps toward this end. However, I would also reiterate two critical steps that Comptroller General Walker has said the Department needs to take, namely having a strategic plan for business transformation that serves to integrate the many people, process, and technology transformation activities going on and planned across the Department and establishing a chief management official (CMO) to provide focused, sustained leadership to the business transformation over a 7-year period. Neither the modernization management actions taken in response to the National Defense Authorization Act for Fiscal Year 2005 or the newly defined and established BTA satisfy those needs.

In closing, let me commend the subcommittee for its active role in DOD's transformation efforts through both its legislative initiatives and its regular oversight of these. Further, let me say that

this transformation will require at least 5 to 7 years to achieve. Under the hands-on leadership of the acting Deputy Secretary, Gordon England, DOD has recently begun taking some positive steps in this direction, particularly with respect to business systems modernization. However, I would describe DOD at this juncture as being in the first few miles of a business transformation marathon, meeting its considerable people, process, and technology change to effect before it will complete the race.

To assist the Department as it moves forward, we encourage it to fully implement the recommendations that we have made, and we pledge to continue working constructively with the Department to make this happen.

Mr. Chairman, members of the subcommittee, this concludes my statement. I would be happy to answer any questions you may have.

[The prepared statement of Mr. Hite follows:]

PREPARED STATEMENT BY RANDOLPH C. HITE

Mr. Chairman and members of the subcommittee: I appreciate the opportunity to be here today to discuss business systems modernization and overall business transformation at the Department of Defense (DOD)—two areas that are on our high-risk list of Federal programs and activities that are at risk of waste, fraud, abuse, or mismanagement and in need of broad-based transformation.¹ At the onset, I would like to pass on Comptroller General Walker's gratitude to this subcommittee for your continued oversight of key government operations and management issues, including DOD's business transformation activities. The active role of this subcommittee is essential to ultimately assuring DOD's continued progress in business transformation, while enhancing public confidence in DOD's stewardship of the hundreds of billions of taxpayer funds it receives each year.

Given its size and mission, DOD is one of the largest and most complex organizations to effectively manage in the world. While DOD maintains military forces with significant capabilities, it continues to confront pervasive, decades-old management problems related to its business operations, including outdated and ineffective systems and processes that support these forces. At a time when DOD is challenged to maintain a high level of military operations while competing for resources in an increasingly fiscally constrained environment, DOD's business area weaknesses continue to result in reduced efficiencies and effectiveness that waste billions of dollars every year. Of the 25 areas on our 2005 high-risk list, 8 are DOD programs or operations and 6 are government-wide high-risk areas for which DOD shares some responsibility. These areas touch on all of DOD's major business operations. In some cases, such as DOD's financial management, weapons acquisition, and business systems modernization areas, we have been highlighting high-risk challenges for a decade or more.

This year we added DOD's overall approach to business transformation to our list of high-risk areas because (1) DOD's business improvement initiatives and control over resources are fragmented; (2) DOD lacks a clear and integrated business transformation plan and investment strategy; and (3) DOD has not designated an appropriate level senior management official—such as a chief management official (CMO)—with the authority to be responsible and accountable for overall business transformation reform and related resources. In particular, GAO has suggested the need for a chief management official² to provide the sustained top-level leadership and accountability needed by DOD to better leverage plans, processes, systems, people and tools to achieve the needed transformation.

Many past administrations have tried to address the deficiencies we have identified at DOD, with the latest attempt being launched in 2001 when Secretary Rumsfeld outlined a vision for transforming the department that called for dramatic changes in management, technology, and business practices. At that time, the Secretary established the Business Management Modernization Program (BMMP) to effect this change. Since then, we have reported a litany of program weaknesses and

¹ GAO, High-Risk Series: An Update, GAO-05-207 (Washington, DC: January 2005).

² S.780, 109th Cong., 1st Sess. introduced in the U.S. Senate on April 15, 2005, would create a statutory Chief Management Officer.

made scores of recommendations. Our latest reports on this program, which were issued about the same time as this subcommittee's last oversight hearing in April 2005 on DOD business transformation and financial accountability, were quite critical of the program, observing that after investing about 4 years and \$318 million on the BMMP, the department had made very little progress.

To its credit, Congress, and this subcommittee in particular, has become increasingly focused on improving DOD's business operations by holding several oversight hearings, such as this one, and enacting legislation. The recent requirements in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 aimed at strengthening DOD's management of its business systems modernization efforts—developing a business enterprise architecture and transition plan, and establishing system investment management structures and processes—are particularly important ingredients to addressing DOD's business systems modernization high-risk area. The act requires GAO to review and report on this transition plan within 60 days of its approval by the Secretary of Defense.

Senior administration leaders and advisors—including the Secretary of Defense, the acting Deputy Secretary of Defense, the Deputy Director of the Office of Management and Budget (OMB), various senior level officials, and members of the Defense Business Board—have demonstrated a commitment to addressing DOD's business management weaknesses. OMB and DOD are working together to develop a plan to improve supply chain management that could place the department on the path toward removal of this area from our high-risk list. For example, OMB and DOD are also consulting GAO as they develop action plans for other high-risk areas as well as a business architecture and related enterprise transition plan. Further, DOD has taken actions intended to comply with the act by establishing system investment review structures and processes, and it has also established a Business Transformation Agency to bring increased management focus to its business systems modernization area.

Today, I would like to provide our preliminary perspectives on (1) DOD's efforts to satisfy the business systems modernization requirements in the National Defense Authorization Act for Fiscal Year 2005; (2) the Business Transformation Agency's potential to help strengthen business systems modernization; and (3) whether DOD efforts to establish management structures and its business enterprise transition plan provide the leadership and planning needed to effect business transformation.

My statement is based upon our ongoing assessment of DOD's efforts to comply with the 2005 defense authorization act, as required under the act. As such, the statement provides our preliminary views on DOD's efforts. It is also based on our analysis of DOD's enterprise transition plan relative to our published work on successful organizational transformation efforts and each of DOD's high risk areas, as well as analysis of DOD's directives establishing the Defense Business Transformation Agency, our previous reports and testimonies, and discussions with DOD senior executives. Our work was performed in accordance with U.S. generally accepted government auditing standards.

SUMMARY

In summary, let me reiterate what Comptroller General Walker has stated on many occasions—transforming the department's business operations is an absolute necessity given the long-term fiscal outlook, and accomplishing this transformation will require sustained and persistent leadership for at least 5 to 7 years. The department, under the leadership of Acting Deputy Secretary England, recently began taking some positive steps in this direction, particularly with respect to the business systems modernization management changes called for in the National Defense Authorization Act for Fiscal Year 2005, as well as with certain other DOD high-risk areas. As of today, our preliminary work suggests that progress has been made in complying with the provisions in the act, but more needs to be done. DOD agrees, and it intends to do more. With respect to DOD's compliance with the authorization act's requirements, we will be issuing a full report to this and other defense congressional committees by November 25, 2005.

In addition, DOD's Business Transformation Agency offers potential benefits relative to the department's business systems modernization efforts if the agency can be properly organized, resource, and empowered to effectively execute its roles and responsibilities and is held accountable for doing so. The agency faces several challenges, including standing up a functioning acquisition organization within a short period of time. As DOD moves forward with implementing this agency, it will be important for it to address these issues.

Furthermore, DOD has taken several actions intended to advance transformation, such as establishing management structures like the Business Transformation

Agency, and developing the enterprise transition plan. While these steps are positive, their primary focus appears to be on business system modernization. Business transformation is much broader and encompasses planning, management, structures, and processes related to all key business areas. As DOD continues to evolve its transformation efforts, critical to successful reform are sustained leadership, structures, and a clear strategic and integrated plan that encompass all major business areas. We, therefore, continue to believe that a CMO position along with an integrated strategic plan for the overall business transformation effort, remain essential ingredients for better ensuring that overall business transformation is successfully implemented and sustained.

BACKGROUND

DOD is one of the largest and most complex organizations in the world to manage effectively. While DOD maintains military forces with unparalleled capabilities, it continues to confront pervasive, decades-old management problems related to its business operations—which include outdated systems and processes—that support these forces. These management weaknesses cut across all of DOD’s major business areas, such as human capital management; the personnel security clearance program; support infrastructure management; financial management; weapon systems acquisition; contract management; supply chain management; and last, but not least, business systems modernization. All of these DOD areas are on our high-risk list.

For years, DOD has attempted to modernize its business systems, and we have provided numerous recommendations to help guide its efforts, including a set of recommendations to help DOD develop and implement an enterprise architecture (or modernization blueprint) and establish effective management controls. To achieve successful transformation, we have also recommended the need for a CMO, and a strategic integrated action plan for the overall business transformation effort.

Enterprise Architecture and Information Technology Investment Management Are Critical to Achieving Successful Systems Modernization

Effective use of an enterprise architecture, or modernization blueprint, is a hallmark of successful public and private organizations. For more than a decade, we have promoted the use of architectures to guide and constrain systems modernization, recognizing them as a crucial means to a challenging goal: agency operational structures that are optimally defined in both the business and technological environments. Congress has also recognized the importance of an architecture-centric approach to modernization: the E-Government Act of 2002,³ for example, requires OMB to oversee the development of enterprise architectures within and across agencies.

In brief, an enterprise architecture provides a clear and comprehensive picture of an entity, whether it is an organization (e.g., a Federal department) or a functional or mission area that cuts across more than one organization (e.g., financial management). This picture consists of snapshots of both the enterprise’s current or “As Is” environment and its target or “To Be” environment. These snapshots consist of “views,” which are one or more architecture products (models, diagrams, matrices, text, etc.) that provide logical or technical representations of the enterprise. The architecture also includes a transition or sequencing plan, based on an analysis of the gaps between the “As Is” and “To Be” environments; this plan provides a temporal roadmap for moving between the two that incorporates such considerations as technology opportunities, marketplace trends, fiscal and budgetary constraints, institutional system development and acquisition capabilities, the dependencies and life expectancies of both new and “legacy” (existing) systems, and the projected value of competing investments. Our experience with Federal agencies has shown that investing in information technology (IT) without defining these investments in the context of an architecture often results in systems that are duplicative, not well integrated, and unnecessarily costly to maintain and interface.⁴

A corporate approach to IT investment management is also characteristic of successful public and private organizations. Recognizing this, Congress developed and

³The E-Government Act of 2002, Pub. L. No. 107–347, § 101(a), 116 Stat. 2899, 2903–05, (Dec. 17, 2002), Sec 44 U.S.C. § 3602 (e), (f).

⁴See, for example, GAO, Homeland Security: Efforts Under Way to Develop Enterprise Architecture, but Much Work Remains, GAO–04–777 (Washington, DC: Aug. 6, 2004); DOD Business Systems Modernization: Limited Progress in Development of Business Enterprise Architecture and Oversight of Information Technology Investments, GAO–04–731R (Washington, DC: May 17, 2004); and Information Technology: Architecture Needed to Guide NASA’s Financial Management Modernization, GAO–04–43 (Washington, DC: Nov. 21, 2003).

enacted the Clinger-Cohen Act in 1996,⁵ which requires OMB to establish processes to analyze, track, and evaluate the risks and results of major capital investments in information systems made by executive agencies.⁶ In response to the Clinger-Cohen Act and other statutes, OMB developed policy for planning, budgeting, acquisition, and management of Federal capital assets and issued guidance.⁷ We have also issued guidance in this area,⁸ in the form of a framework that lays out a coherent collection of key practices that, when implemented in a coordinated manner, can lead an agency through a robust set of analyses and decision points that support effective IT investment management. This framework defines institutional structures, such as investment review boards, and associated processes, such as common investment criteria. Further, our investment management framework recognizes the importance of an enterprise architecture as a critical frame of reference for organizations making IT investment decisions: specifically, it states that only investments that move the organization toward its target architecture, as defined by its sequencing plan, should be approved (unless a waiver is provided or a decision is made to modify the architecture). Moreover, it states that an organization's policies and procedures should describe the relationship between its architecture and its investment decisionmaking authority. Our experience has shown that mature and effective management of IT investments can vastly improve government performance and accountability, and can help to avoid wasteful IT spending and lost opportunities for improvements.

Recent Reviews of DOD's Business System Modernization Efforts Have Raised Concerns

Since 2001, we have regularly reported⁹ on DOD's efforts to (among other things) develop an architecture and to establish and implement effective investment management structures and processes. Our reports have continued to raise concerns about the department's architecture program, the quality of the architecture and the transition plan, and the lack of an investment management structure and controls to implement the architecture. Our most recent reports, which were issued in the third and fourth quarters of fiscal year 2005,¹⁰ made the following points:

- DOD had not established effective structures and processes for managing the development of its architecture.
- DOD had not developed a well-defined architecture. The products that it had produced did not provide sufficient content and utility to effectively guide and constrain ongoing and planned system investments.
- DOD had not developed a plan for transitioning from the "As Is" to the "To Be" architectures.
- DOD did not have an effective department-wide management structure for controlling its business investments.
- DOD had not established common investment criteria for system reviews.

⁵The Clinger-Cohen Act of 1996, 40 U.S.C. sections 11101–11704. This act expanded the responsibilities of OMB and the agencies that had been set under the Paperwork Reduction Act, which requires that agencies engage in capital planning and performance and results-based management. 44 U.S.C. § 3504(a)(1)(B)(vi) (OMB); 44 U.S.C. § 3506(h)(5) (agencies)

⁶We have made recommendations to improve OMB's process for monitoring high-risk IT investments; see GAO, *Information Technology: OMB Can Make More Effective Use of Its Investment Reviews*, GAO–05–276 (Washington, DC: Apr. 15, 2005).

⁷This policy is set forth and guidance is provided in OMB Circular No. A–11 (section 300) and in OMB's *Capital Programming Guide*, which directs agencies to develop, implement, and use a capital programming process to build their capital asset portfolios.

⁸GAO, *Information Technology Investment Management: A Framework for Assessing and Improving Process Maturity*, GAO–04–394G (Washington, DC: March 2004).

⁹GAO, *Information Technology: Architecture Needed to Guide Modernization of DOD's Financial Operations*, GAO–01–525 (Washington, DC: May 17, 2001); *DOD Business Systems Modernization: Improvements to Enterprise Architecture Development and Implementation Efforts Needed*, GAO–03–458 (Washington, DC: Feb. 28, 2003); *Information Technology: Observations on Department of Defense's Draft Enterprise Architecture*, GAO–03–571R (Washington, DC: Mar. 28, 2003); *Business Systems Modernization: Summary of GAO's Assessment of the Department of Defense's Initial Business Enterprise Architecture*, GAO–03–877R (Washington, DC: July 7, 2003); *DOD Business Systems Modernization: Important Progress Made to Develop Business Enterprise Architecture, but Much Work Remains*, GAO–03–1018 (Washington, DC: Sept. 19, 2003); *DOD Business Systems Modernization: Limited Progress in Development of Business Enterprise Architecture and Oversight of Information Technology Investments*, GAO–04–731R (Washington, DC: May 17, 2004).

¹⁰GAO, *DOD Business Systems Modernization: Billions Being Invested without Adequate Oversight*, GAO–05–381 (Washington, DC: Apr. 29, 2005); *DOD Business Systems Modernization: Longstanding Weaknesses in Enterprise Architecture Development Need to Be Addressed*, GAO–05–702 (Washington, DC: July 22, 2005).

- DOD had not included all reported systems in its fiscal year 2005 IT budget request.
- The Under Secretary of Defense (Comptroller) had not certified all systems investments with reported obligations exceeding \$1 million, as required by the National Defense Authorization Act for Fiscal Year 2003.¹¹

Our recommendations to DOD provide a comprehensive roadmap for addressing these problems. DOD has largely agreed with the recommendations and as we recently reported, has defined a framework intended to do so.

Successful Business Transformation Requires Sound Strategic Planning and Sustained Leadership

In testimony before this subcommittee earlier this year, Comptroller General Walker emphasized that there are three key elements that DOD must incorporate into its business transformation efforts to successfully address its systemic business challenges.¹² First, these efforts must include an integrated strategic business transformation plan, including an enterprise architecture to guide and constrain implementation of such a plan. Second, control of system investments is crucial for successful business transformation. Finally, a CMO is essential for providing the sustained leadership needed to achieve a successful and lasting transformation effort. The CMO would not assume the day-to-day management responsibilities of other DOD officials nor represent an additional hierarchical layer of management but would lead DOD's overall business transformation efforts. Additionally, a 7-year term would also enable the CMO to work with DOD leadership across administrations to sustain the overall business transformation effort.

DOD'S EFFORTS TO COMPLY WITH NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2005 INDICATE PROGRESS AND A FOUNDATION UPON WHICH TO BUILD

As defined in section 332 of the National Defense Authorization Act for Fiscal Year 2005,¹³ DOD is required to satisfy several conditions relative to its approach to managing its business systems modernization program. Generally speaking, DOD is required to do the following:

1. By September 30, 2005, develop a business enterprise architecture that meets certain requirements.
2. By September 30, 2005, develop a transition plan for implementing the architecture that meets certain requirements.
3. Identify each defense business system proposed for funding in the budget submissions for fiscal year 2006 and subsequent years, and for each system, among other things, identify whether funding is for current services or business systems modernization.
4. Take a number of actions regarding the review and approval of investments, including delegating responsibility for business system review and decisionmaking to designated approval authorities,¹⁴ establishing investment review boards and supporting process that employ common steps and criteria, and obligating funds for Defense Business System Modernizations after October 1, 2005, only for systems that have been certified and approved.

The act also requires us to assess DOD's efforts to comply with the act within 60 days after approval of the business enterprise architecture and transition plan. On September 28, 2005, the acting Deputy Secretary of Defense approved Version 3.0 of the business enterprise architecture and approved the associated enterprise transition plan. Accordingly, we are currently in the process of conducting our assessment, and we plan by November 25, 2005, to issue a report containing the results of our assessment to defense congressional committees, as specified in the act. As agreed, this statement contains only preliminary observations based on our ongoing work, meaning that these observations may change as we conclude our ongoing assessment.

¹¹ Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, § 1004, 116 Stat. 2458, 2629-2631 (Dec. 2, 2002).

¹² See GAO, Defense Management: Key Elements Needed to Successfully Transform DOD Business Operations, GAO-05-629T (Washington, DC: Apr. 28, 2005).

¹³ Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332, 118 Stat. 1811, 1851-1856 (Oct. 28, 2004) (codified in part at 10 U.S.C. § 2222).

¹⁴ Approval authorities include the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Under Secretary of Defense (Comptroller); the Under Secretary of Defense for Personnel and Readiness; and the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer of the Department of Defense. These approval authorities are responsible for the review, approval, and oversight of business systems and must establish investment review processes for systems under their cognizance.

For purposes of this statement, we have grouped the act's requirements, and our preliminary observations, into four categories: business enterprise architecture, enterprise transition plan, fiscal year 2006 budget submission, and investment review and approval.

Business Enterprise Architecture Requirements

The act requires that DOD develop, by September 30, 2005,¹⁵ a business enterprise architecture. According to the act, this architecture must satisfy three major requirements:

1. Include an information infrastructure that, at a minimum, would enable DOD to
 - comply with all Federal accounting, financial management, and reporting requirements;
 - routinely produce timely, accurate, and reliable financial information for management purposes;
 - integrate budget, accounting, and program information and systems; and
 - provide for the systematic measurement of performance, including the ability to produce timely, relevant, and reliable cost information.
2. Include policies, procedures, data standards, and system interface requirements that are to be applied uniformly throughout the department.
3. Be consistent with OMB policies and procedures. According to DOD, this version is intended to provide a blueprint to help ensure near-term delivery of needed capabilities, resources, and materiel to the warfighter. To do so, this version focused on six Business Enterprise Priorities (see table 1), which DOD states are short-term objectives to achieve immediate results. According to the department, these priorities will evolve and expand in future versions of the architecture.

TABLE 1: BUSINESS ENTERPRISE PRIORITIES

Business Enterprise Priority	Description
Personnel Visibility	Providing access to reliable, timely, and accurate personnel information for warfighter mission planning.
Acquisition Visibility	Providing transparency and access to acquisition information that is critical to supporting life-cycle management of the department's processes for delivering weapon systems and automated information systems.
Common Supplier Engagement ..	Aligning and integrating policies, processes, data, technology, and people to simplify and standardize the methods that DOD uses to interact with commercial and government suppliers.
Materiel Visibility	Improving supply chain performance.
Real Property Accountability	Acquiring access to real-time information on DOD real property assets.
Financial Visibility	Providing immediate access to accurate and reliable financial information that will enhance efficient and effective decisionmaking.

Source: DOD.

In addition to focusing version 3.0 on these priorities, according to DOD, the department also limited the extent to which the architecture was to address each priority, focusing on four questions:

- Who are our people, what are their skills, and where are they located?
- Who are our industry partners, and what is the state of our relationship with them?
- What assets are we providing to support the warfighter, and where are these assets deployed?
- How are we investing our funds to best enable the warfighting mission?

To produce a version of the architecture within the above scope, DOD created 12 of the 23 recommended products included in the DOD Architecture Framework—the structural guide that the department has established for developing an architecture.¹⁶ These 12 products included all 7 products that the framework designates as

¹⁵ Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332, 118 Stat. 1811, 1851–1856 (Oct. 28, 2004) (codified in part at 10 U.S.C. § 2222).

¹⁶ The Department of Defense Architecture Framework recommends that the architecture include 23 of the 26 possible architecture products to meet the department's stated intention to use the architecture as the basis for department-wide business and systems modernization.

essential.¹⁷ For example, one essential product is the Operational Node Connectivity Description, which is a graphic showing “operational nodes” (organizations) and including a depiction of each node’s information exchange needs.

Our preliminary work suggests that Version 3.0 of DOD’s business enterprise architecture may partially satisfy the major conditions specified in the act. For example, Version 3.0 could enable DOD’s compliance with many but not all Federal accounting, financial management, and reporting requirements. To this end, the architecture includes the Standard Financial Information Structure (SFIS) and the Standard Accounting Classification Structure (SACS), which together could allow DOD to standardize financial data elements necessary to support budgeting, accounting, cost/performance management, and external reporting. Both SFIS and SACS are based upon mandated requirements defined by external regulatory entities, such as the Treasury, OMB, the Federal Accounting Standards Advisory Board, and the Joint Financial Management Improvement Program.¹⁸ Moreover, SFIS has in turn been used to develop and incorporate business rules in the architecture for such areas as managerial cost accounting, general ledger, and federally owned property. Business rules are important because they explicitly translate important business policies and procedures into specific and unambiguous rules that govern what can and cannot be done.

However, it is not apparent that the architecture provides for compliance with all Federal accounting, financial, and reporting requirements. For example, it may not contain the information needed to achieve compliance with the Treasury’s United States Standard General Ledger¹⁹ or a strategy for achieving this compliance.

As another example, Version 3.0 may partially enable DOD to produce timely, accurate, and reliable financial information for management purposes. Specifically, according to the architecture financial information is to be produced through (1) SFIS, which can support data accuracy, reliability, and integrity requirements for budgeting, financial accounting, cost and performance management and external reporting across DOD, and (2) a “Manage Business Enterprise Reporting” system function, which is to support the reporting of financial management and program performance information, including agency financial statements.

However, timely, accurate, and reliable information depends, in part, on using standard definitions of key terms, which the architecture does not appear to include in all cases. For example, in Version 3.0 of the architecture, terms such as “balance forwarded” and “receipt balances” were not defined in the integrated dictionary although these terms were used in process descriptions. In the absence of standardized definitions, components (military services, defense agencies, and field activities) may use terms and definitions that a locally meaningful but which cannot be reliably and accurately aggregated to permit DOD-wide visibility, which is critical to achieving DOD’s stated business enterprise priorities. This inability to aggregate has historically required DOD to create information for management purposes using inefficient methods, such as data calls and data conversions, that have limited the information’s reliability and timeliness.

Our preliminary work also suggests that Version 3.0 may partially satisfy the act’s requirement that it be consistent with OMB policies and procedures. For example, Version 3.0 appears to include information flows and relationships, as required by OMB guidance. OMB guidance also requires the architecture to describe the “As Is” and “To Be” environments and a transition plan; however, Version 3.0 does not include an “As Is” environment. Without this element, DOD would not be able to develop a gap analysis identifying performance shortfalls, which as discussed in the next section critical input to a comprehensive transition plan. In addition, OMB guidance requires that the architecture include, among other things a description of the technology infrastructure; such a description is not apparent in Version 3.0, in that it does not identify such needed technology components as wide-area networks, databases, and telecommunications. Similarly, Version 3.0 does not appear to include a security architecture, although OMB guidance require agencies to incor-

¹⁷ DOD, Department of Defense Architecture Framework, Version 1.0, Volume 1 (August 2003) and Volume 2 (February 2004).

¹⁸ JFMIP was a joint and cooperative undertaking of the Department of the Treasury, GAO, the Office of Management and Budget (OMB), and the Office of Personnel Management (OPM), working in cooperation with each other and other Federal agencies to improve financial management practices in the Federal Government. Leadership and program guidance were provided by the four Principals of JFMIP—the Secretary of the Treasury, the Comptroller General of the United States, and the Directors of OMB and OPM. Although JFMIP ceased to exist as a stand-alone organization as of December 1, 2004, the JFMIP Principals will continue to meet at their discretion.

¹⁹ The United States Standard General Ledger provides a uniform Chart of Accounts and technical guidance to be used in standardizing Federal agency accounting.

porate security into the architecture of their information and systems to ensure the security of agency business operations.

Version 3.0 may also contain other limitations. For example, it may not yet be fully integrated with the enterprise transition plan. In particular, we are currently attempting to determine why 21 system identified in the architecture are not included in the “Master List of Systems and Initiatives” in the transition plan (the master list serves as the baseline of currently planned—“To Be”—systems that begin to address the transformational objectives of the program). In addition, DOD has itself disclosed certain limitations. For example, it reported that the architecture is not adequately linked to the component²⁰ architectures and transition plans. This omission is particularly important given the department’s newly adopted federated approach to developing and implementing the architecture. In addition, according to DOD, the architect be improved to better designate enterprise data sources, business services, and IT infrastructure services, such as enterprise data storage. This is important because each of these greatly affects to scope and design of specific systems.

According to DOD officials, the department is taking an incremental approach to developing the architecture and meeting the act’s requirements. Accordingly, they said that Version 3.0 was appropriately scoped to provide for that content which could be produced in the time available to both lay the foundation for fully meeting the act’s requirements and provide a blueprint for delivering near-term capabilities and systems to meet near-term business enterprise priorities. Based on these considerations, they asserted that Version 3.0 fully satisfies the intent of the act.

We support DOD’s taking an incremental approach to developing the business enterprise architecture, as we recognize that adopting such an approach is both a best practice and a prior GAO recommendation. In addition, our preliminary work suggest Version 3.0 may provide a foundation upon which to build a more complete architecture. Nevertheless, the real question that remains is whether this version contains sufficient scope, detail, integration, and consistency to serve as a sufficient frame of reference for defining a common vision and transition plan to guide and constrain system investments.

Enterprise Transition Plan

The act requires that DOD develop, by September 30, 2005, a transition plan for implementing its business enterprise architecture. According to the act, this plan must meet three conditions:

1. Include an acquisition strategy for new systems that are expected to be needed to complete the defense business enterprise architecture.
2. Include listings of the legacy systems that will and will no part of the target business systems environment, and a strategy for making modifications to those systems that will be included.
3. Include specific time-phased milestones, performance metrics, and a statement of the financial and nonfinancial resource needs.

On September 28, 2005, the Acting Deputy Secretary of Defense approved the transition plan. Our preliminary work on this plan the plan appears to include elements of an acquisition strategy for new systems and describe a high-level approach for modernizing department’s business operations and systems. Further, it includes detailed information on about 60 business systems (ongoing programs) that are to be part of the “To Be” architectural environment, as well as an acquisition strategy for each system. However, the plan does not appear to be based on a top-down capability gap analysis between the “As Is” and “To Be” architectures that describes capability and performance shortfall and clearly identifies which system investments (such as the 60 identified programs) are to address these shortfalls. This is important because a transition plan is to be an acquisition strategy that recognizes timing and technological dependencies among planned systems investments, as well as such other considerations as market trends and return on investment.

Similarly, our preliminary work suggests that the plan identifies some of the legacy systems that are to be replaced by ongoing programs (for example, it identifies the Defense Cash Accountability System as a target system and lists several legacy systems that it would replace), and it provides a list of legacy systems that will be modified to provide capabilities associated with the target architecture environment. However, the plan’s listings of legacy systems that will and will not be part of the target architecture do not appear to be complete. For example, the plan identified 145 legacy systems that would be migrating to one target system (the Expeditionary

²⁰ DOD components include the military services, defense agencies, and field activities.

Combat Support System), but other DOD documentation²¹ shows that this target system includes over 659 legacy systems, suggesting that 514 systems may not be accounted for.

Finally, the plan appears to include some of the required information on milestones, performance metrics, and resource needs. The plan includes key milestone dates for the 60 systems/programs identified (such as the Defense Travel System), but it does not show specific dates for terminating or migrating many legacy systems (such as the Cash Reconciliation System), and but it does not include milestone dates for some ongoing programs (such as the Navy Tactical Command Support System). Similarly although the plan includes performance metrics for some systems,²² it does not include for each system measures and metrics, focused on benefits or mission outcomes that can be linked to the plan's strategic goals. In addition, according to program officials, the resource needs in the transition plan for some programs are not current, as these needs are reflective of the fiscal year 2006 budget, which was developed before a recent reevaluation of how these programs will fit into the "To Be" environment.

Our preliminary work also suggests that in addition to the limitations just described, the plan may be missing relevant context and be inconsistent with the architecture in various ways. For example, it identifies 60 systems as target systems (for example, the Defense Cash Accountability System), but the "To Be" architecture appears to include only 23 of these. In addition, the plan includes a list of 66 systems that are characterized as nonpriority enterprise or component programs that will be part of the target architecture, but the target architecture does not appear to identify all these systems.

According to DOD officials, the transition plan is evolving, and any limitations will be addressed in future iterations of the plan. They also stated that the department has taken an incremental approach to developing a transition plan, and that the plan, as constrained by the scope of Version 3.0 of the architecture, satisfies the intent of the act's requirements.

As with the architecture, we support an incremental development approach. Moreover, this plan represents DOD's first ever enterprise transition plan, and thus constitutes progress. However, questions remain as to whether it is of sufficient scope and content to effectively and efficiently manage the disposition of the department's existing inventory of systems or to sequence the introduction of modernized business operations and supporting systems.

Fiscal Year 2006 IT Budget Submission

The National Defense Authorization Act for Fiscal Year 2005 specifies information that the department is to incorporate in its IT budget request for fiscal year 2006 and each fiscal year thereafter. Generally, the act states that each budget request for business systems must:

1. Identify each defense business system for which funding is being requested.
2. Provide information on all funds, by appropriation, for each business system, including funds by appropriation specifically for current services (Operation and Maintenance) and systems modernization (Procurement; Research, Development, Test, and Evaluation; and Defense Working Capital Fund).
3. Identify the designated approval authority for each business system.

On the basis of our preliminary work, it appears that DOD's fiscal year 2006 IT budget submission may partially satisfy these conditions. For example, although the fiscal year 2006 budget may not identify each business system for which funding is requested, DOD is taking steps to ensure that subsequent fiscal year budget requests are more comprehensive. This situation arose because DOD's fiscal year 2006 budget submission was submitted in February 2005, when the department did not yet have a single inventory of all of its business systems. As a result, DOD officials could not guarantee that all business systems were included in the submission. Currently, the department is updating its single database for its inventory of business systems, as we had recommended,²³ which is scheduled to be completed by Septem-

²¹ DOD, Expeditionary Combat Support System Sources Sought Synopsis (May 10, 2004).

²² For example, for DOD's military personnel and pay system, the Defense Integrated Military Human Resources System (DIMHRS), the plan cites a goal of reducing manual workarounds for military pay by 9 percent.

²³ GAO, DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability, GAO-04-615 (Washington, DC: May 27, 2004).

ber 30, 2006. Finally, DOD officials stated that the fiscal year 2007 IT budget submission will be derived from a separate DOD authoritative IT budget database.

There may be additional areas of uncertainty regarding the completeness of DOD's IT budget submission. One source of uncertainty is inconsistencies in the way that DOD classifies systems: as business systems or as national security systems.²⁴ For example, as we previously reported,²⁵ DOD reclassified 56 systems in its fiscal year 2005 budget request from business systems to national security systems, resulting in a decrease of approximately \$6 billion in the fiscal year 2005 budget request for business systems and related infrastructure. Similarly, in the fiscal year 2006 submission, 13 systems previously classified as business systems were reclassified as national security systems, and 10 systems previously classified as national security systems were reclassified as business systems. We understand that DOD is currently reviewing its reclassifications.

Our preliminary work also indicates that DOD may not have ensured that budget requests for all business systems identify the type of funding—by appropriation—being requested and whether the funding was for current services or modernization. In the fiscal year 2006 budget submission, systems identified are categorized by type of funding (appropriation) being requested and whether the funding is for current services or modernization; however, not all systems may be identifiable. In particular, it is not clear what is covered by one funding type or category referred to as “All Other.” For fiscal year 2006, this category totaled about \$1.2 billion and included, for example, about \$22.6 million specifically for financial management. According to DOD officials,²⁶ this category in the IT budget includes system projects that do not have to be identified by name because they fall below the \$2 million reporting threshold for budgetary purposes.

Investment Review and Approval Requirements

The National Defense Authorization Act for Fiscal Year 2005 specifies actions that the department is to take regarding the review and approval of investments in business systems. Generally, the act sets up three requirements for the department:

- Delegate the authority and accountability for defense business systems to designated approval authorities within the Office of the Secretary of Defense.
- By March 15, 2005, require each approval authority to establish an investment review process to review the planning, design, acquisition, development, deployment, operation, maintenance, modernization, and project cost benefits and risks of all defense business systems for which the approval authority is responsible.
- Effective October 1, 2005, obligate funds for a defense business system modernization project with total cost exceeding \$1 million after the approval authority designated for that system certifies to the Defense Business Systems Management Committee (DBSMC) that the system project meets specific conditions that are called for in the act, and the certification by the approval authority is approved by the DBSMC.

On the basis of our preliminary work, it appears that DOD has satisfied some aspects of these conditions, and is potentially in the process of satisfying other aspects. First, on March 19, 2005, the Acting Deputy Secretary of Defense issued a memorandum that delegated the authority for the review, approval, and oversight of planning, design, acquisition, deployment, operation, maintenance, and modernization of the department's business systems. Designation of these approval authorities is consistent with the act. Further, our research and evaluations, as reflected in the guidance that we have issued, shows that clear assignment of senior executive investment management responsibilities and accountabilities are key aspects of having an effective institutional approach to IT investment management.

Second, DOD has established investment review structures and processes, including a hierarchy of investment review boards with representation from across the department, as well as a standard set of investment review and decisionmaking criteria for these boards to use to ensure compliance and consistency with the business enterprise architecture. Further, the DBSMC was chartered in February 2005 as the highest ranking system modernization governance body, as required by the

²⁴ National security systems are intelligence systems, cryptologic activities related to national security, military command and control systems, and equipment that is an integral part of a weapon or weapons system or is critical to the direct fulfillment of military or intelligence missions.

²⁵ GAO-05-381.

²⁶ GAO-04-615.

act.²⁷ Further, DOD has designated the chair and membership of the boards consistent with the act, and all but one of designated approval authorities have established investment review boards for their areas of responsibility, which the act requires each to do. The one approval authority that does not appear to have established a review process is the Assistant Secretary of Defense (Networks and Information Integration)/Chief Information Officer.

To support its investment review structures, DOD has also established investment review processes that include, among other things, the use of business enterprise architecture compliance procedures, common decision criteria, threshold criteria to ensure appropriate levels of review and accountability. Notwithstanding these investment review structures and processes, it remains uncertain to what extent DOD components have established similar investment review bodies and will adopt common investment review and decisionmaking processes. DOD components are expected to establish their own structures and processes. Under the department's concept of "tiered accountability," significant responsibility and accountability for business system investments is to reside with the military services and defense agencies. The extent to which the components establish and consistently implement common investment management structures and processes is important, because doing so is a best practice. Without such structures and processes, investment decisions could potentially perpetuate the existence of overly complex, error-prone, non-integrated system environments and limit introduction of corporate solutions to longstanding business problems.

Finally, our preliminary work indicates that the department is in the process of ensuring that defense business system modernizations²⁸ costing greater than \$1 million are certified and approved in accordance with the act. Specifically, the department has identified 210 systems with costs greater than \$1 million, thus requiring certification and approval. Of these 210, DOD reports that 166 were certified and approved in accordance with the act before September 30, 2005. This means that 44 were not, and according to the act, the department cannot make further obligations for any of these other than with funding left over from previous fiscal years, until they are certified and approved.

One potential issue with regard to the department's system certification and approval efforts to date is whether it has identified all business system modernizations with costs greater than \$1 million. Doing this requires, among other things, proper classification of systems as national security systems or as business systems. If a business system is improperly classified, it may not be reviewed, certified, and approved in accordance with the act. As stated earlier, questions persist regarding whether the department has properly classified all business systems as such.

Another potential issue is whether DOD has followed the act's criteria for DBSMC review and approval in all of the aforementioned 166 systems. Specifically, it appears that the DBSMC approved the certification of at least six business systems in August 2005 that had been previously reviewed in accordance with earlier criteria;²⁹ however, the current criteria under the act do not provide for the DBSMC to approve a certification based upon such previous certification. According to DOD officials, these six systems will go through the current review process no later than February 2006. In addition to these six, DOD officials told us that several other systems investments, which were certified and approved on the grounds that they were mission essential,³⁰ will also be resubmitted for DBSMC approval.

DOD'S BUSINESS TRANSFORMATION AGENCY COULD HELP STRENGTHEN SYSTEMS MODERNIZATION MANAGEMENT AND OVERSIGHT IF IT IS EFFECTIVELY IMPLEMENTED

On October 7, 2005, DOD established the Business Transformation Agency (BTA) to advance defense-wide business transformation efforts in general but particularly with regard to business systems modernization. BTA reports directly to the vice chair of the DBMSC.³¹ Among other things, BTA includes an acquisition executive who is to be responsible for 28 DOD-wide business projects, programs, systems, and initiatives. In addition, the BTA is to be responsible for integrating and supporting

²⁷ See 10 U.S.C. § 186.

²⁸ The term 'defense business system modernization' is defined in 10 U.S.C. § 2222(j)(3) as "(A) the acquisition or development of a new defense business system; or (B) any significant modification or enhancement of an existing defense business system (other than necessary to maintain current services)."

²⁹ The six systems were reviewed under the criteria set forth in the National Defense Authorization Act for Fiscal Year 2003.

³⁰ See 10 U.S.C. § 2222 (a)(1)(C).

³¹ The vice chair of the DBSMC is the Under Secretary of Defense for Acquisition, Technology and Logistics.

the work of the Office of the Secretary of Defense (OSD) principal staff assistants, who include the approval authorities that chair the business system investment review boards.

In our view, BTA offers potential benefits relative to the department's business systems modernization efforts, if the agency can be properly organized, resourced, and empowered to effectively execute its roles and responsibilities, and if it is held accountable for doing so. In this regard, the agency faces a number of challenges as described below.

According to DOD, this agency is expected to have a functioning acquisition organization by November 21, 2005. While such a timeline is daunting in and of itself, it is particularly challenging given that DOD is estimating up to 12 months to establish a permanent director. Moreover, there are numerous key acquisition functions that would need to be established and made operational to effectively assume 28 DOD-wide projects, programs, systems, and initiatives, and our experience across the government shows that these functions can take considerable time to establish.

Among other things, the agency is to be responsible for ensuring consistency and continuity across the department's core business missions with respect to, for example, business process reengineering and related business system matters. While the agency should be able to accomplish this relative to the DOD-wide efforts that it can control, it does not appear to have the requisite authority to carry out this responsibility relative to DOD component system investments, which it does not have investment control over. At best, the agency will be able to support the DBMSC in its efforts to ensure such consistency and continuity.

As currently structured, the agency does not include support to an OSD principal staff assistant and approval authority—the Assistant Secretary of Defense for Networks Integration and Infrastructure, who is responsible for DOD information technology infrastructure, such as wide-area networks, local-area networks, telecommunications, and security services. In addition, the agency's relationship to the Defense Information Systems Agency, which is also responsible for certain DOD-wide system capabilities and services, is not specified. As the department moves forward with implementing this new agency, it will be important for it to address these issues.

EFFECTIVE DOD BUSINESS TRANSFORMATION WILL REQUIRE BROADER FOCUS THAN RECENTLY LAUNCHED BUSINESS SYSTEMS MODERNIZATION MANAGEMENT STRUCTURES AND ACTIVITIES

For DOD to successfully transform its overall business operations, it will need senior level management accountability, a comprehensive and integrated business transformation plan that covers all of its key business functions; people with needed skills, knowledge, experience, responsibility, and authority to implement the plan; an effective process and related tools; and results-oriented performance measures that link institutional, unit, and individual performance goals and expectations to promote accountability for results. Over the last 3 years, GAO has made several recommendations that if implemented successfully could help DOD move forward in establishing the means to successfully address the challenges it faces in transforming its business operations. For example, as the Comptroller General testified before this subcommittee earlier this year, DOD needs a full-time CMO position, created through legislation, with responsibility and authority for DOD's overall business transformation efforts.³² The CMO must be a person with significant authority and experience who would report directly to the Secretary of Defense. Given the nature and complexity of the overall business transformation effort, and the need for sustained attention over a significant period of time, this position should be a term appointment and the person should be subject to a performance contract.

The Secretary of Defense, Acting Deputy Secretary of Defense, and other senior leaders have clearly shown commitment to business transformation and addressing deficiencies in the Department's business operations. As I discussed earlier, DOD has taken several actions, including setting up the DBSMC, publishing a business enterprise transition plan and most recently, establishing the Business Transformation Agency. Moreover, DOD is examining various aspects of its business operations as part of the ongoing Quadrennial Defense Review. While these management structures and plan are positive steps, their primary focus, at this point, appears to be on business systems modernization. Clearly, maintaining effective and modern business systems is a key enabler to transformation. However, business transformation is much broader and encompasses not only the supporting systems,

³² S.780, 109th Cong., 1st Sess. introduced in the U.S. Senate on April 15, 2005, would create a statutory Chief Management Officer.

but also the planning, management, organizational structures, and processes related to all DOD's major business areas. Such areas include support infrastructure management, human capital management, financial management, weapon systems acquisition, contract management, planning and budgeting, and supply chain management. Recognizing that DOD is continuing to evolve its efforts to plan and organize itself to achieve business transformation, critical to the success of these efforts will be management attention and structures that focus on transformation from a broad perspective and a clear strategic and integrated plan that, at a summary level, addresses all of the department's major business areas. This strategic plan should contain results-oriented performance measures that link institutional, unit, and individual goals, measures and expectations, and would be instrumental in establishing investment priorities and guiding the department's resource decisions.

Finally, the lynchpin to ensure successful business transformation is the presence of strong and sustained executive leadership with appropriate responsibility, authority, and accountability. The central authority we had envisioned to allow for strong and sustained executive leadership over DOD's business management reform efforts is a full-time, executive-level II position for a CMO, who would serve as the Deputy Secretary of Defense for Management. This position would divide and institutionalize the functions of the Deputy Secretary of Defense by creating a separate Deputy Secretary of Defense for Management. As we envision it, the CMO would feature a term of office that spans administrations, which would serve to underscore the importance of taking a professional, nonpartisan, institutional, and sustainable approach to the overall business transformation effort. As I understand it, DOD's position is that the acting Deputy Secretary of Defense, who also serves as the chair of the DBSMC, has the requisite position, authority, and purview to perform the functions of a CMO. Under the acting Deputy's leadership, DOD expects to be able to demonstrate progress towards achieving business reform. Comptroller General Walker continues to believe a CMO is necessary to provide the sustained leadership needed to achieve true business transformation. In light of DOD's position, we would encourage the subcommittee to require DOD to periodically report on its efforts, including describing the specific goals and measures against which it is measuring its progress in achieving business reform.

In closing, the department has made important progress in the last 6 months in establishing the kind of business systems modernization management capabilities that our research and evaluations show are essential to a successful modernization program—namely, an architecture, a transition plan, and system investment decisionmaking structures and processes. But more needs to be done to complete each of these areas, and most importantly, to ensure that they are reflected in how each and every business system investment is managed. While the new business transformation agency can help get this done, much remains to be accomplished before this agency is functioning as intended. Beyond systems modernization, overall business transformation remains a major challenge. The creation of a CMO position, and the development of a strategic transformation plan to integrate and guide the department's people, process, and technology change initiatives, would go a long way in helping the department meet this challenge.

Mr. Chairman and members of the subcommittee, this concludes my prepared statement. I would be happy to answer any questions you may have at this time.

Senator ENSIGN. I thank all the witnesses for their testimony. This is, far and away, the most encouraging news that we have had as far as this subcommittee on this subject since we have been having these hearings, although the bar was pretty low before. [Laughter.]

I should not have probably said that last part. I should have just left a good compliment because we should reward people with praise when they deserve that praise, and I certainly think that all of you deserve kudos, job well done, up to this point. Having said that, we all know the ship is very, very difficult to turn, and we are just making that first slow turn, but at least now we are making a slow turn to head in the right direction.

So I just want you to know Senator Akaka and I on this subcommittee, while we have been bird-dogging this issue, will continue to because it is so absolutely critical for the warfighter and the taxpayer that we get these systems right. Those taxpayer dol-

lars out there—people are talking how do we build enough ships, how do we build enough war planes, how do we equip our warfighters the right way. If budgets are getting tight, with all of the various things that we are going through, and the more efficient that the Department of Defense can use those tax dollars, the better off that we can all be. A lot of the money that we all know right here does not help any warfighter. It is just wasted. It is wasted in bureaucratic nonsense, and we just need better systems so that we are not wasting that kind of money.

With that as just a quick introduction, let me address a few questions. Secretaries Krieg and Jonas, while with the Enterprise Transition Plan the scope is limited and has content limitations, and under an incremental approach to developing the architecture, later versions will add the missing scope and content, if you could maybe just address what are the Department's plans for achieving full compliance with the congressional requirements as laid out in the 2005 defense authorization bill?

Mr. KRIEG. I will start. Senator, we decided that the best thing to do was to get started.

Senator ENSIGN. Also, how long do you think it might take to fully comply with the 2005 DOD?

Mr. KRIEG. I do not know if I can answer that question because I do not know if I fully understand the implications of what complying means, since complying is often in the eyes of the beholder.

But our notion was to begin to lay a framework and a structure. We have the overall Enterprise Transition structure laid out. You can see how the major services fit inside it. You can see how several of the large agencies fit inside it. There are more agencies to include, as we go through it. There is more depth in the linkages as we go through it. But our plan is that every 6 months, we will bring out a new version that will continue to add both breadth of content and depth of content. We felt that was much better than writing you a note saying give us another 6 months and we will come back to you because this was the fundamental framework. We saw this as the beginning point to begin getting everybody to look at it. So I would say it will probably take several 6-month periods to get it fully scoped out, to get all of the agencies participating so that you can see from 360 degrees.

But I will also note that it is very interesting. In Defense Business Systems Committee meetings, we can now see senior managers who see the same program from different places. Nurdy Swartz at TRANSCOM will tell you he needs Defense Enterprise Accounting and Management System (DEAMS), his financial management system, in order to build the enterprise that he wants. The Comptroller will tell you DEAMS is one of the key programs to build a basis to be able to do the kind of financial management that she needs. The Air Force will tell you we are relying now on Nurdy Swartz to begin to build out their capability.

So I think my long answer to your short question is we see the framework. It will take us several 6-month periods to build it out, but we think the direction is correct.

Ms. JONAS. As I laid out in my short statement, clearly we owe you the FIAR plan which I indicated we will have to you, hopefully,

next month. We are working on that, working toward that. So that is a key piece for us.

I would just echo that this Defense Business Management Council has been a terrific addition to our efforts to get the Department on track, and it is really taken as a very serious meeting. That has been so beneficial to all of us, and the acting Deputy Secretary's leadership on this has been critical.

I think one of the problems faced by the fellow that had my job previously, Dov Zakheim, was that many of the financial transactions that we have to have a handle on start in logistic systems. They start in systems that are owned by somebody else. So it was kind of difficult for us to be pushing the rest of the Department. What Ken has outlined for you is a leadership that has now come to the view that there is substantial business benefit to implementing these systems. It is not just for the sake of a clean opinion, and we are seeing improvements in that area.

I agree with you, sir, on your comments with respect to the defense budgets. We have to make the best use of every dollar that we have. I cannot do that as Comptroller without sophisticated financial tools, and I will not have those until I can get some of the systems in place that we are trying to pursue here.

Senator ENSIGN. My time has expired. I just want to make one quick comment. It is fairly unrelated to what we are talking about today, but it is along the same lines of financial accountability and doing the best with the taxpayers' dollars. Secretary Krieg, I am going to be asking you to make sure that Phil Grone meets with us on an issue that the Federal Government really does not do now. It is starting to happen a lot more in construction. This has to do with military construction.

The private sector is starting to use more and more the idea of construction management and a third party doing construction management. There is software and it is all accountable. They are web-based programs. There are several companies out there right now that produce the software and there are companies out there that use that software. There are time lines laid out. Who is supposed to deliver what, when, where? It would seem to me that all governmental entities could benefit from this, but obviously, the DOD with the massive amount that we spend on construction every year and perhaps even the principles could be transferred over to other areas.

But the beautiful thing about this is that there is already commercially available software out there, and what I would like to do is work with the DOD on trying to come up with legislative language that would require this type of a third-party entity to be on all the construction projects because for a very small fee, you can hold down the costs tremendously. It can all be web-based. Therefore, the accountability is out there for all of the public to see.

So I look forward to working with you. I just wanted to lay that out today and let you know that it is an area that we want to pursue.

Senator Akaka.

Senator AKAKA. Thank you very much, Mr. Chairman.

Secretary Krieg and Secretary Jonas, as I indicated in my opening statement, I am pleased by the work of Mr. Brinkley and Mr.

Modly and what they have done as they took over the Department's business systems transformation effort. As I also indicated, I remain concerned that the entire effort appears to remain dependent on two people.

My question to you is, what steps have you taken or somebody taken there to empower Mr. Brinkley and Mr. Modly to ensure that they have the authority that they need to get the job done? I am asking that question because in the past this concern by people who have been in these positions has been they really did not have the authority. So that is my question to you. What steps have been taken to give them this kind of authority?

Mr. KRIEG. First of all, their authority emanates from the Deputy Secretary, from me, and from Tina. We spend a lot of time with them and spend a lot of time with their folks going through things. So they have a lot of support and a lot of backing to do what they do. I think, as you noted, the fact that this exists when it did not exist 6 months ago is a testament to their ability to use that authority.

Second, I would note that while the two often do feel, I think, that they are a pair of lone rangers out working together on hard issues, they will also be the first to tell you that there are a lot of people in the Department who are seeing this come together and are bringing their capabilities and resources together. Part of what we decided we needed to do was put the formal structures in, so formal structure of the Defense Business Systems Management Committee, formal structure of the investment review boards. Tina chairs one. I chair two of them. David Chu chairs one. So they are integrated into the approach. The creation of the agency was to formalize management relationships to continue driving this forward, take it out of the ad hoc, move it into the formal structure. So I think what you are seeing is the Department in transition to institutionalize the approach going forward.

Ms. JONAS. If I could just add to that, Senator Akaka. I am sure Tom and Paul would be the first to admit they have a significant team of people behind them. I would love to be able to submit the names of the people who have been helping put this effort together. It is not just a two-man show. They would be the first to admit it because they could not do what they do without the additional people. David Fisher and Radha Sekar come to mind. I have mentioned Terri McKay.

But behind Tom, Paul, Terri, and all others are thousands of dedicated career financial professionals in our area who are committed to this and have been really waiting for the kind of leadership we are trying to provide to make the kind of progress we are making. I think we have a very proud community of financial professionals in the Department, and your interest helps us with them. Their morale is hugely boosted when they know they are making progress. These are things that frustrate them on a day-to-day basis. So lack of proper controls on things, wastefulness are all things that pain a lot of people, and they are all very encouraged, I think, by the work that, as a team, we have all done to try to get to this point. We have to carry that through.

We appreciate the support of Congress on this. This is hugely beneficial to us to sort of charge up our work force on the need for this.

Mr. KRIEG. Can I note one more thing? Congress gave us the authority, I think in the last National Defense Authorization Act, to go out and hire highly qualified experts from civilian life to come in for a limited term, to bring their skills in. We have hired or are in the process of hiring a number of people who have real systems integration and real business systems development experience and 15–20 years of experience in the private sector into the Government under the highly qualified expert legislation that you gave us either last year or the year before. So that has been extremely helpful.

Senator AKAKA. I am also, as I mentioned in my statement, concerned about institutionalizing the process. So my question to you, if you want to answer both, what additional steps do you think Congress or the Department should take to institutionalize the process started by Mr. Brinkley and Mr. Modly?

Ms. JONAS. I think clearly the establishment of the BTA is that we are looking for a career professional to ultimately direct that. Ken talked about Butch Pair who is coming in as a senior military commander to help carry that along. But I think really as we make progress, the Department itself, the military services will start to see the business benefit, the efficiency, and that will continue to drive a lot of change.

We have focused on a number of things in the financial area, and let me just give you a small example because it is a good example. When we started out, we were paying interest penalties to contractors because we were not paying on time. That is just a basic waste of funds, and it also irritated the contractors because they were not getting paid on time. We have driven that down to next to nothing. It is a savings of just under \$50 million a year just because we have gotten better at that process. That is one small example of what we have been able to do.

But the Department is seeing better the benefit of implementing systems and automating. One of the things we did on pay recently was we automated some functions which eliminated 800,000 manual transactions. That is a lot. It means that we can eliminate the lack of timeliness and inaccuracy and the rework.

So with the structure that we have put in place, with your help, the help of this committee specifically, and your guidance and leadership, we have that in place. We have a career professional that we are looking for. We have a career military officer in place. I think we are starting to get some momentum. We have a plan that can be followed.

Ken, you might want to add, but I just think that it is the momentum and the success and the results of all this that are going to be most important to the Department in continuing the effort.

Senator AKAKA. Secretary Krieg, would you have an addition?

Mr. KRIEG. The only thing I know is I think you have given us plenty of authority. We have authority. We need to implement. So I would say the challenge for the next year, 6 months or a year, is does the performance track against what we have laid out, does the second iteration of this in 6 months and the iteration behind

that begin to show more. I think we have the authority. I think you have given us plenty of authority. We have to execute it.

Senator AKAKA. Thank you for your response.

Ms. JONAS. Could I just thank you for one other thing? This committee, I believe, provided authority to hire Certified Public Accountants (CPAs), and because of that we have been able to increase the number of CPAs substantially. We have gone from 152 to 203 in the Department under me. So the pride, the professionalism is really important to our efforts. So again, we thank you for all the things that you have done. You took a little bit of a cut against our ability to audit in your mark. We hope you would maybe take a look at that. But we appreciate all the effort you have made on our behalf. It has made a huge difference.

Senator AKAKA. Thank you.

Mr. HITE. Senator Akaka, if I could add just one point to that. Frankly, the legislation that this committee has put through has institutionalized most of these processes, most of the structures that are in place now. So congratulations on doing that.

The one area that remains is to what extent are these Institutional Review Boards (IRBs), these investment review boards, and this consistent approach to conducting the business of these IRBs going to be adopted by the military services and the component defense agencies. I understand the intention is that that will occur, but that is a to-be-done.

Mr. KRIEG. Well, can I note that?

Mr. HITE. Certainly.

Mr. KRIEG. In this last review, the Services and the agencies actually reviewed them before they came to the IRB, and we are still working on the exact numbers to understand it. But something north of 40 systems were scrubbed out at the Service and agency level because they said it does not meet the requirements of the review. So we put them in the chain of command in order to make them responsible, not have this be a centrally managed million dollar level review, but put the chain of command into it, and then oversee it at the enterprise level. As soon as we have it, we will submit to you the exact numbers.

Mr. HITE. I appreciate that comment. That is true. My point deals more with using a consistent process throughout the component agencies and the military services. I do not doubt that reviews were done, and they were done by entities within those component organizations. Are we using consistent processes, top to bottom, for making these investment decisions throughout the Department? That is a to-be-done.

Senator AKAKA. Thank you, Director Hite. Thank you, Mr. Chairman.

Senator ENSIGN. Thank you.

We will go to Senator Bayh next, just right after I remind Secretary Krieg that I just asked the staff to write down your last comment about we have given you plenty authority and now you just have to do it. [Laughter.]

Mr. KRIEG. I am sure I will hear that one again, will I not? [Laughter.]

Senator BAYH. Are witnesses allowed to amend and revise? [Laughter.]

I would like to thank all of you for your service. Secretary Jonas, my questions are going to be, I think, exclusively directed to you and they have to do with the Defense Finance and Accounting Service (DFAS) process and the allocation of additional jobs in Indianapolis vis-a-vis Cleveland, Ohio.

Lee Krushinski; what role, if any, will he play in making these decisions?

Ms. JONAS. I have not talked to Lee about it. Zack Gaddy is the Director of the DFAS. He has been the one that has exclusively put forward a base realignment and closure (BRAC) plan.

Senator BAYH. Will he continue to be the one exclusively in charge of this?

Ms. JONAS. Of course, now that the provisions are accepted and have been adopted, he will brief me on that plan. I have not been briefed on the plan yet.

Senator BAYH. That did not respond to my question. Will Mr. Krushinski play any role in this going forward?

Ms. JONAS. I will have to talk to Zack about it. I will ask him.

Senator BAYH. So you do not know.

Ms. JONAS. I will find out, sir, and get back with you on that. Zack Gaddy is the Director of DFAS, and so he is the one who has laid out the plan.

Senator BAYH. The reason I ask is Mr. Krushinski is from Cleveland, Ohio, which you probably know.

Ms. JONAS. Actually I did not know that.

Senator BAYH. He is living there. Some of us would find it difficult to believe he could be completely objective if he is living in a community and he is making decisions about jobs being added or not being added in that community.

Ms. JONAS. Yes, I understand, sir. We value, by the way—

Senator BAYH. Again, nothing disparaging about him.

Ms. JONAS. Sure.

Senator BAYH. But human nature being what it is, it would just be very hard.

Ms. JONAS. Yes. Sir, the BRAC process is very difficult and it is very tough on the various communities. I am committed to making sure that, whatever we do, it is objective and fair, and I think I may have corresponded with you to make sure that we are doing the right thing by all our DFAS employees. We have some terrific people, about 2,600 in Indianapolis. We have very important things there. I have heard from many of your delegation.

Senator BAYH. We have room for 1,700 more.

Ms. JONAS. I understand, sir, and it is a wonderful place to live. I am from the Midwest also. But I understand your concerns.

Senator BAYH. I have a couple other questions here. I think we want the same things which are objectivity, transparency, we want what is right for the Department, what is right for the taxpayers, and not to allow parochial factors or extraneous factors or, God forbid, political factors to get involved in these kind of things. As I think we have had a chance to express before, we just feel the cost of space, the availability of space—there are a lot of objective factors that argue in favor of Indiana.

Ms. JONAS. I understand.

Senator BAYH. So forgive us if we are zealous in pointing some of these things out.

You would agree that a Congressman's position on Central American Free Trade Agreement (CAFTA), for example, is something that should have no bearing on DFAS decisions.

Ms. JONAS. I agree with that, yes.

Senator BAYH. Rumors circulate around this town from time to time about things like that.

Ms. JONAS. What I can promise you is that we will be fair and objective in our analysis. We want to be fair to the people. We have wonderful people in DFAS. They have been improving, as I mentioned. My deputy chief financial officer came from DFAS, Terri McKay, who is behind me. I am very committed to this work force. They are a great work force. They give great value to the Department. They want to continue to improve. As I say, I think the BRAC implementation will be difficult. It will be hard on families. It will be hard on communities. So we want to make sure that we are doing it objectively, fairly, and I am committed to working with you.

Senator BAYH. I certainly agree with that, and we are both in agreement that CAFTA should have no bearing on this. Things get mentioned. I just want to make sure that that has not taken place. It would probably be above your pay grade anyway.

Ms. JONAS. I think so.

Senator BAYH. I just want to make sure that that has not happened and will not happen.

Secretary Jonas, I think your position had been, and understandably, that you did not want to meet with the Indiana delegation until the process had come to a conclusion, that was today. When do you think we will have an opportunity to sit down with you and talk about these things?

Ms. JONAS. I would be happy to come by your office any time, sir.

Senator BAYH. With our complete congressional delegation?

Ms. JONAS. Absolutely. I would be happy to do that, sir.

Senator BAYH. I think that is all that I have. But again, I hope you will get back to me on Mr. Krushinski's status.

Ms. JONAS. Certainly, and if there is any concern there at all, I will take care of it.

Senator BAYH. Well, you can understand that.

Ms. JONAS. Yes, sir, absolutely.

Senator BAYH. I assume that other places would feel the same way if we had somebody from Indianapolis who was——

Ms. JONAS. Any process has to be perceived as fair, and so we are committed to fairness and fairness by the work force and the communities that are involved.

Senator BAYH. Great.

Ms. JONAS. Thank you, Senator.

Senator BAYH. Thank you. Thank you all.

Senator ENSIGN. I guess this would be a bad time to inform Senator Bayh that those DFAS jobs are all moving to Nevada. [Laughter.]

Senator BAYH. Well, we would like to see the criteria, Mr. Chairman.

Senator ENSIGN. It was all objective.

I have a question about the BTA for anyone who wants to jump in, including Mr. Hite, on this. The BTA, as currently structured, does not have complete representation of key agencies such as Defense Information Systems Agency (DISA) and the Assistant Secretary of Defense for Network and Integration Information. Maybe you can just comment. Are you comfortable with the lack of representation of such key agencies?

Mr. KRIEG. Those individuals are on the Defense Business Systems Management Committee (DBSMC). So both National Information Infrastructure (NII) and DISA sit at the table of the DBSMC.

Senator ENSIGN. Of the?

Mr. KRIEG. Yes. Let me put it in English.

Senator ENSIGN. That would be appreciated.

Mr. KRIEG. You all asked us to have a senior management group led by the deputy secretary to look at this issue over time, and that is the DBSMC. That includes me as vice chair, Tina, all of the people, including DISA and NII, meeting monthly to oversee the implementation of this. The BTA will do the day-to-day management and implementation. It will not have somebody from everywhere. It will not be that large, I hope. It will be driving the process integrating everybody's activity and using the DBSMC as its governance council, if you will, and using our authority to get its work done. So it is not meant to have everybody in it. I am not trying to make it a little inner-agency activity in its own right. It is going to have its own authority and its own activity, and it will work on issues that pertain to DISA and pertain to the NII.

Senator BAYH. Obviously, you are comfortable with that.

Mr. Hite, any comments that you have on it?

Mr. HITE. Yes, sir. If you look at the way the organization of BTA has been set up, there are organizational functions there to support different principal staff assistants in the Office of the Secretary of Defense like Mr. Krieg. There is not one to support the Assistant Secretary of Defense for NII. So that is a missing element within their own organization structure. That Assistant Secretary, per the legislation, was to be a member of the DBSMC. It was to be an approval authority for business systems, which it has been designated by the Department as being. It was to establish an IRB for those systems that it is responsible for, which is largely information technology (IT) infrastructure and information assurance capabilities. It has not established that IRB, and so you see an absence of their playing in this from an IRB perspective and from representation by a function within the BTA.

Senator ENSIGN. Okay, the structure may not be there. What is just your own personal opinion or GAO's opinion on this? Why do you think that that is not ideal or in the actual functioning of the BTA?

Mr. HITE. Because the business systems that this organization is going to be responsible for, whether they be enterprise-level systems or component level systems, rely on that IT infrastructure, information assurance capabilities to execute. They run on the platforms that DISA and the DOD Chief Information Officer (CIO) are responsible for putting in place. They are an integral part to acquiring and deploying business systems. There is a relationship

there. There is an absolute, necessary relationship there that is not explicit in the BTA currently.

Senator ENSIGN. Go ahead, Secretary Krieg. I am just asking the questions.

Mr. KRIEG. I understand.

I think what Mr. Hite is referring to—and I will be glad to work with him and get back to you with other details, but what he is describing is a physical and virtual infrastructure that is being built around the Department. Yes, the NII, as the CIO, sets standards for how communication will take place around that infrastructure. In my mind, as business managers and as business systems managers, we are customers of those kinds of standards as they come out, and they will participate actively in the work we do, and we will participate actively in the work they do, both to set up the infrastructure, which is obviously what they are in the lead of, and to do the information assurance/information protection role that they take a lead in.

So, obviously, whatever systems we put in place, we will have to have the information assurance standards of the DOD. But I would view we are sort of a customer of their standard-setting. Now, in this organization all customers participate in cross-organizational groups to sort through standards, but the CIO of the NII is an active participant in this work and we would expect that it will continue to be.

Mr. HITE. We have wholehearted agreement that they should be an active participant in this. The only issue is whether or not they are recognized in the proposed structure of the BTA. They currently are not. But it seems like we have agreement that they should be.

Senator ENSIGN. We will look forward to you all working together and getting back to us on it. How is that? Okay?

Senator AKAKA, any other questions?

Senator AKAKA. Yes, Mr. Chairman.

I would like to direct this to Director Hite. In the past, the DOD has offered us financial management plans that did, at that time, little more than aggregate together programs that DOD components already had in progress, with little effort to ensure that these programs would address the underlying problems in the Department's systems and processes.

My question is, do you believe that the Department has put in the hard work needed to review individual component plans and make sure that they are consistent with the DOD architecture and will provide the Department with the financial and business management information that it needs? Do you believe the Department has put in that what I call hard work needed?

Mr. HITE. Two comments on that. With respect to the financial management improvement plans that Ms. Jonas mentioned—I think she referred to it as the FIAR plans—that plan is due out, I believe, in December. So we have not looked at it. So we do not have any comments at this time on that particular plan.

But I can tell you, having looked at the architecture and the associated transition plan, that there is capability designed into the architecture to promote, for example, financial management-related data standards and sharing of financial management information

that is accurate, reliable, and timely. That kind of capability is being built into the architecture which should drive investments in financial systems to move them toward that end. So I do see progress in this area based on the latest version of the architecture and the transition plan.

Senator AKAKA. What do you think more remains to be done to complete that? That is if the Department is doing it right. How much more needs to be done?

Mr. HITE. There are additional steps that probably need to be taken around additional description of certain—well, let me start over again.

One of the things, obviously, that needs to be done is having the architecture and having the blueprint for putting in place financial systems that are going to produce timely, accurate, and reliable information. But this is just the beginning. The real work is then taking the blueprint and translating it into actual, on-the-ground system implementations that operate and deliver promised capabilities. That is a huge step. That is the last 23 miles of the marathon that have to be done. So that is a huge yet-to-be-done. The architecture will help provide standards and structure around how that will happen.

Senator AKAKA. Secretary Krieg and Secretary Jonas, on BEA, GAO's testimony indicates that the latest version of the BEA is an improvement over prior versions and—I am quoting—"may provide a foundation upon which to build a more complete architecture."

However, GAO says that this version only partially satisfies the requirements of the NDAA for Fiscal Year 2005. For example, GAO says that the architecture does not provide all of the standardized definitions that are needed. It fails to include an as-is environment sufficient to identify performance shortfalls, and it is not fully integrated with the Enterprise Transformation plan.

The first question is, do you agree with GAO's assessment that the architecture delivered on September 30 does not yet fully meet the requirements set forth in the NDAA for Fiscal Year 2005?

Mr. KRIEG. I think we asserted, when we sent it, that it was not a finally finished product, that we were not done, and we would not have any more work to do. Again, I will get back to you on the exact compliance because I cannot tell you that I know exactly what it means to comply. That being said, I full-well admit that there is a lot of work left to be done in the architecture. But there is a lot of work to be done in implementation.

Let me for a second, though, kind of push back at work on the as-is. We spent a long time trying to architect the as-is, and we tried to architect the as-is down several levels in the architecture. We found it very hard to say how things related to each other in the as-is, and we spent a lot of time and effort trying to explain how things that did not relate to each other related to each other. I think we found that further exploration of the as-is to prove that we were not doing well was a path we did not want to move down, and that is why we moved to this path.

Now, we will work with GAO to see if there is a common ground on the as-is, but I will tell you architecting the as-is—we spent a lot of money doing that. I am not sure what finishing the architecture for the as-is description will necessarily add to the other 23

miles of the marathon we have to run. So we will work that issue, obviously. They will make comments. We will reply to their comments and we will come back to you. But that is one concern I have as I look at that thought.

Ms. JONAS. If I might, could I just address one thing? I think what we have in place is something that is very important to me as Comptroller and one of the concerns, I think, that was originally raised by GAO was the amount of investment. What systems were we investing in and why? Just as an example—we were going to address this a little bit earlier—216 systems were identified for certification this year. There were 182 systems that were certified and approved by the DBSMC, for an investment value of \$3.2 billion. There were 34 systems that were not certified, and we are not allowing funds to be obligated per the legislation. So that is very important. There were another 290 systems that were identified for phase-out.

So I am not a technician or a software engineer. I do not know all the ins and outs about this Enterprise Architecture from a technical point of view, but from an investment point of view, I think we are substantially down the road to where we need to be to try to control some of the investments, and I think that is very important.

Senator AKAKA. Yes. You continue to mention the systems. In our discussions before, it was made clear to me that one huge problem that you have there is the number of systems.

Ms. JONAS. Yes, sir.

Senator AKAKA. To try to bring that together is going to be very difficult, and you are suggesting that too.

I just want to add to my questions. What steps are there that are left to come about to what we call full compliance with the statutory requirements?

Ms. JONAS. I think the piece that I think we owe you from the financial point of view is this FIAR Plan, which is integrated with the Enterprise Transition Plan. So everything fits together. You have the BEA, which tells you what your as-is looks like. You have the transition plan that tells you where you need to be, and then you have the audit piece that, from a financial point of view, tells us how it will all work to get us to resolving those 11 material weaknesses. We hope to be able to give that to you next month.

Mr. HITE. Senator Akaka, I think what you are looking for here under this incremental approach to developing the architecture and transition plan which, by the way, we support—it is a best practice. We have recommended it. That is the way you approach these things. Frankly, you do it for major systems too. You develop them incrementally, but when you develop something incrementally, you have a plan that says what is the capability, what are the attributes of those increments that I am going to deliver by when. So one of the things we have looked for, relative to incrementally developing this architecture and incrementally developing this transition plan is where is that plan that says what these increments are going to contain. We have not seen that. That is what you are looking for. That is what you want to know in order to see where we are going to get to the end here.

Senator AKAKA. Mr. Chairman, what Mr. Hite mentioned is one of the concerns about the transition plan. GAO reports that the DOD transition plan represents progress and is a foundation upon which to build and also indicates that limitations appear to exist with respect to investment-specific performance outcome measures and metrics that are linked to strategic goals and outcomes, current resource estimates, and consistency with the architecture.

I am particularly concerned by GAO's statement that the plan does not appear to be based on a capability gap analysis that describes capability and performance shortfalls and identifies which system investments will address these shortfalls.

Again, do you agree with GAO's assessment that the transition plan delivered on September 30 does not yet fully meet the requirements set forth in last year's NDAA?

Mr. KRIEG. Senator Akaka, let me do this. Given that I have not read, nor has my staff read, the GAO's review of the plan, I do not want to try and make it up as we are having a conversation. I would like to go back and thoughtfully look at what they have said. They have not even delivered us a draft report yet to be able to comment on it. So I do not want to try to comment on the details of it until we have had a chance to go through it, understand what their views are, thoughtfully represent it, be able to come back to you and come back to them and say, here is what we agree with, here is what we do not agree with, here is how we need to resolve this.

What we have tried to do in the other high-risk areas is to sit down and get a mutual understanding between and among the OMB, GAO, and DOD as to what we think the right path forward is, and I would anticipate we will do the same kind of thing here. We had to get this Enterprise Transition Plan down so that people would have something to talk about. So we are a little bit farther behind in the time scale than some of the other high-risk areas, but I would anticipate that is what we will do next. So if I may beg your indulgence, let me take their work, let us go through it and understand it. We will, obviously, be submitting back to GAO, but we will submit back to you as well for the record our appraisal of their concerns and where we think we need to go. Is that fair?

Senator AKAKA. Secretary Krieg has spoken. [Laughter.]

Mr. KRIEG. It was not that good. [Laughter.]

Senator ENSIGN. Just one wrap-up question. Best guess estimate. What year will DOD be able to pass full financial audits? I want both of you to maybe be on the record on this.

Ms. JONAS. Actually let me talk to this one. [Laughter.]

Senator ENSIGN. The Comptroller has spoken. [Laughter.]

Ms. JONAS. Wait till you get your budget mark. [Laughter.]

I think one of the problems with the approach previously was that it was schedule-driven. If you look at most acquisition programs, one of the larger criticisms you will see from GAO is that things are schedule-driven as opposed to event-driven. There was great concern about the missile defense programs in past years, about them being schedule-driven as opposed to event-driven.

I cannot tell you today when we will be able to get to that point. I can tell you that we are closer. I can tell you that I hope by 2009 we will have addressed a majority of our assets and liabilities

issues. I raised today the Medicare Eligible Retiree Health Care Fund liabilities. I think we can make enormous progress on that. We have a qualified opinion on that, but if we can take these steps that I have outlined and will be outlined to you and the committee, we will have covered 78 percent of our liabilities.

We are working on, as I mentioned, the military valuation and other aspects that will allow us to get to 50 percent of our assets being clean.

So we are working on it that way. We will be able to provide progress to the committee as we make the incremental progress. But I cannot tell you right now. So much of what we do and getting at these 11 material weaknesses depend on the success of the Department to get at these business systems. If it were in my control to be able to do this, we would have done it.

Senator ENSIGN. That is one of the reasons I wanted Secretary Krieg to weigh in as well.

Ms. JONAS. Okay. We will let him pipe in, but that is what I would say.

Mr. KRIEG. I will disappoint you terribly by not giving you a date.

But let me tell you something I see happening because of the partnership we have going. I have several defense agencies that report to me, and the defense agency managers come in talking about getting to an auditable set of books not for the sake of the auditable set of books, but because they want to have the business management tools to understand what they need to do and how they need to make changes. The reason I note that is I think that is a culturally important step to take that the business owners are now increasingly owning getting to financial visibility because they want to run the business, not because someone tells them they need to have a clean audit.

I cannot give you a date, but I think that is a huge change in the way senior management is looking at the problem.

Senator ENSIGN. I actually would have been disappointed if you would have given me a date because it would have been wrong, and that would have been the first thing because I do not know that there is a way to predict it.

I think you are exactly right. I think that it is a cultural—that the Services and the service chiefs and everybody have to buy in that this is not for bean counters, that this is not a bean-counting exercise, that this is actually practical tools that can actually make them have more dollars to do the things that they want to do and also be accountable to the taxpayers so everything is out in the open. That is the purpose for all of this.

I am not one of those people that you just have systems in place just so you can check things off. That is not the purpose for doing this. The purpose for doing this is to ensure that our warfighter has the resources that they need and our taxpayer feels comfortable that we are using their money in the best possible way. That is the purpose for doing these.

I want thank you. I think it has been a very, very productive hearing. We look forward, once again, to working with you between now and the next time we do these hearings.

One last comment. Obviously, you saw the Byrd amendment yesterday. We will be following that very closely to find out if this continues to have progress. I will fight to make sure that you are allowed to go forward, and if not, then we may take a different route. But we will look forward to working with GAO, as well as the DOD, on that particular issue as we go forward.

So thank you all very much for your excellent testimony.

The meeting is adjourned.

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR DANIEL K. AKAKA

REVIEW AND APPROVAL OF BUSINESS SYSTEM INVESTMENTS

1. Senator AKAKA. Secretary Krieg and Secretary Jonas, the Department of Defense states that it has adopted a “tiered accountability” approach to system investment review, certification, and approval. Have the Department’s military services and defense agencies established investment review structures and processes consistent with those at the Office of the Secretary of Defense level as part of this approach?

Mr. KRIEG. The Department adopted and successfully implemented the tiered accountability approach for Business System Investment reviews. Under this approach, program managers submit required certification documents to their designated pre-certification authority (PCA). For programs that are Service specific, the PCA resides in each respective Service. The PCA has the responsibility to review the submission on behalf of the Service and if they approve the effort, they prepare a certification recommendation and forward it to the appropriate Office of Secretary of Defense (OSD) level Investment Review Board (IRB). If the IRB approves the investment, then the OSD Certification Authority refers the investment to the Defense Business Systems Management Committee (DBSMC) for final approval.

Due to the pre-certification requirement mentioned above, Services and defense agencies have processes and structures in place to review programs before they come forward to an OSD IRB. This allows for “tiered” review by the Service or defense agency before the OSD review. The PCA is the individual accountable in the Service or defense agency for the decision to submit the package into the OSD review process. In some cases, after conducting their own pre-certification review, Services or defense agencies have elected not to forward systems to OSD because they were duplicative or merited further examination of capabilities.

Ms. JONAS. Yes, in accordance with the Deputy Secretary of Defense memorandum dated March 19, 2005, subject: “Delegation of Authority and Direction to Establish an Investment Review Process for Defense Business Systems,” DOD Services and agencies have established PCAs and Investment Review processes. PCAs are headquarters-level approval authorities who are assigned accountability for business systems investments.

2. Senator AKAKA. Secretary Krieg and Secretary Jonas, when will this be accomplished?

Mr. KRIEG. In accordance with the Deputy Secretary of Defense memorandum dated March 19, 2005, subject: “Delegation of Authority and Direction to Establish an Investment Review Process for Defense Business Systems,” DOD Services and agencies have established PCAs and Investment Review processes.

Ms. JONAS. This has already been accomplished. As of June 2, 2005, the DOD has adopted a “tiered accountability” approach to investment review, certification, and approval as required by the Investment Review Concept of Operations (CONOPs). A list of DOD Service and agency PCAs is attached.

Component	PCA Name			Honorific/Title
	First	Middle Initial	Last	
Air Force	William	T.	Hobbins	Lieutenant General
Army	Gary	L.	Winkler	Principal Director, Governance, Acquisition, and Chief Knowledge Office
Navy	David	M.	Wennergren	Chief Information Officer
CPMS	Janet		Hoffheins	Deputy Director, HR Automated Systems
DFAS	Audrey		Davis	Chief Information Officer

Component	PCA Name			Honorific/Title
	First	Middle Initial	Last	
DISA	John		Garing	Director for Strategic Planning and Information
DISA	Diann		McCoy	Component Acquisition Executive
DISA	Jimaye		Sones	Chief Financial Executive
DLA	Mae		De Vincentis ...	
FMTT	Christine		Wenrich	
MDA	James	E.	Armstrong, Jr.	Dr./Chief Information Officer
TRANSCOM	Paul	F.	Capasso	Brigadier General
TRANSCOM	Virginia	L.	Williamson	Alternate PCA (TRANSCOM)

QUESTIONS SUBMITTED BY SENATOR BILL NELSON

MISREPRESENTING FUNDS

3. Senator BILL NELSON. Secretary Jonas, a recent Defense Criminal Investigative Service (DCIS) investigation at U.S. Special Operations Command (USSOCOM) established that in 2002 the command's budget personnel, at the request of the OSD Comptroller's office, misrepresented the command's annual budget request by \$20 million in order to "hide" or "park" funds that would be used by DOD for unspecified purposes later. Statements by DOD and USSOCOM budget professionals to DCIS investigators indicated that "hiding" or "parking" money in the Department's budget request is a common and accepted practice. What is your interpretation of law with respect to willfully misrepresenting budget numbers or justification in the annual DOD funding request to Congress?

Ms. JONAS. Federal law makes it unlawful to knowingly and willfully submit to Congress information relating to the Department's budget request that is materially false. The Department makes every attempt to ensure that the information we provide to Congress in connection with the budget request is accurate in all respects.

4. Senator BILL NELSON. Secretary Jonas, what is your interpretation of DOD regulation, directive, and policy with respect to willfully misrepresenting budget numbers or justification in the annual DOD budget estimate submission or program objective memorandum?

Ms. JONAS. The Department justifies its budget requests in accordance with the procedures prescribed by the OMB in OMB Circular A-11. In addition, the Department has promulgated several directives and instructions defining its Planning, Programming, Budgeting, and Execution System (PPBES). The Department's internal budget process includes numerous reviews at multiple levels to ensure that all budget requests are accurate and complete.

5. Senator BILL NELSON. Secretary Jonas, what specific action are you taking to determine the scope of the practice of misrepresenting the numbers or justifications in the Department's budget request?

Ms. JONAS. It is my understanding that the Department of Defense Inspector General (DODIG) has reopened its audit regarding the matter. Once the DODIG has issued a report and made its recommendations, the Department will implement any recommendations resulting from the audit that will improve our process.

6. Senator BILL NELSON. Secretary Jonas, what specific action are you taking to uncover and correct instances of misrepresenting numbers or justifications under current appropriated programs?

Ms. JONAS. The DODIG is required to audit and investigate programs and activities of DOD organizations. The DODIG is currently looking into allegations of inappropriate budget practices at SOCOM. Once the DODIG has issued a report and made its recommendations, the Department will implement any recommendations resulting from the audit that will improve our process.

7. Senator BILL NELSON. Secretary Jonas, what specific actions are you taking to ensure that misrepresenting budget request numbers or justifications will not be tolerated in the annual Department budget request to Congress?

Ms. JONAS. The Department's budget justifications are reviewed for compliance with OMB Circular No. A-11.

A review of all budget justifications submitted by the Services and DOD agencies is conducted prior to submission to the OMB and Congress.

QUESTIONS SUBMITTED BY SENATOR EVAN BAYH

DEFENSE FINANCE AND ACCOUNTING SERVICE

8. Senator BAYH. Secretary Jonas, please provide details regarding the timetable for making final decisions regarding Defense Finance and Accounting Service (DFAS) consolidation, for implementing these changes, and where this process stands today.

Ms. JONAS. The draft DFAS Base Realignment and Closure (BRAC) Business Plan was submitted to OSD BRAC Office on November 21, 2005, for review and comment. If approved, implementation will begin in January 2006. However, the availability of BRAC funding will influence the final implementation schedule.

9. Senator BAYH. Secretary Jonas, we know the floors set by the BRAC Commission. What is the currently available capacity of each DFAS location to go above these floors?

Ms. JONAS. Capacity exists at Cleveland, Columbus, and Indianapolis to meet the floors set by the BRAC Commission. Capacity, without construction at Cleveland is 2,262 full time equivalents (FTEs), Columbus is 2,930 FTEs, and Indianapolis is 3,800 FTEs. Minor renovation projects are needed to meet the mandated floors at Limestone of 600 FTEs and at Rome of 1,000 FTEs.

10. Senator BAYH. Secretary Jonas, what criteria are being used to determine the future size and functions of each DFAS location?

Ms. JONAS. The following criteria were used to determine the location and size of functions:

1. Achieve economies of scale using the existing workforce by aligning work where it is currently being performed.
2. Ensure backup exists of critical functions to mitigate risks.
3. Optimize savings opportunities.
4. The pace of implementation should address high attrition rates.
5. Meet BRAC 2005 staffing floors at the five sites:
 - a. 1,500 FTEs at Cleveland, OH.
 - b. 2,064 FTEs at Columbus, OH.
 - c. 2,632 FTEs at Indianapolis, IN.
 - d. 600 FTEs at Limestone, ME.
 - e. 1,000 FTEs at Rome, NY.

11. Senator BAYH. Secretary Jonas, what data (surveys, etc.) are available regarding the preference of DFAS employees for relocation to specific sites?

Ms. JONAS. None. All DFAS employees will be offered the option to relocate to a continuing site and will receive Permanent Change of Station reimbursement.

12. Senator BAYH. Secretary Jonas, does the DOD have any information on the cumulative impact that loss of experience will have on DFAS operations?

Ms. JONAS. Historically, approximately 10–20 percent of the workforce will relocate as workload transitions. To mitigate the impact of the loss of experience, DFAS has developed a risk management plan that includes mitigation strategies such as advanced hiring, telework, workforce augmentation, and parallel operations during migration of customer work. These strategies have been successfully used during previous workload realignments.

13. Senator BAYH. Secretary Jonas, are the 800 jobs that Director Gaddy has announced for DFAS-Indianapolis new jobs?

Ms. JONAS. The projected jobs are additional permanent positions.

14. Senator BAYH. Secretary Jonas, would the 800 new jobs be a permanent addition to the existing jobs, would they simply replace jobs that may be slated for elimination, or are they expected to be eliminated soon after they are added?

Ms. JONAS. The projected jobs are additional permanent positions.

[Whereupon, at 3:17 p.m., the subcommittee adjourned.]

